



Umzimkhulu Local Municipality  
Financial statements  
for the year ended 30 June 2018

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## General Information

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|                                    |                                       |
|------------------------------------|---------------------------------------|
| <b>Legal form of entity</b>        | Local Municipality                    |
| <b>Members of the Council</b>      |                                       |
| Mayor                              | Cllr M B Mpabanga                     |
| Deputy Mayor                       | Cllr S Nkala                          |
| Speaker                            | Vacant                                |
| Chief whip                         | Cllr X Tshazi                         |
| Members of the executive committee | Cllr J Msiya                          |
| Members of the executive committee | Cllr T Machi                          |
| Members of the executive committee | Cllr B Lukakayi                       |
| Members of the executive committee | Cllr B Z Magaqa                       |
| Members of the executive committee | Vacant                                |
| Members of the executive committee | Vacant                                |
| <b>Accounting Officer</b>          | Mr Z.S Sikhosana                      |
| <b>Chief Finance Officer (CFO)</b> | Mrs T.J Ngcemu                        |
| <b>Grading of local authority</b>  | 3                                     |
| <b>Attorneys</b>                   | Matthew Francis                       |
| <b>Bankers</b>                     | First National Bank                   |
| <b>Registered office</b>           | 169 Main Street<br>Umzimkhulu<br>3297 |
| <b>Business address</b>            | 169 Main Street<br>Umzimkhulu<br>3297 |
| <b>Postal address</b>              | P O Box 53<br>Umzimkhulu<br>3297      |
| Telephone number                   | 039 259 5000                          |
| Fax number                         | 039 259 0427                          |
| Email address                      | info@umzimkhululm.gov.za              |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Index

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

|  | <b>Page</b> |
|--|-------------|
| Approval of Financial Statements             | 3           |
| Statement of Financial Position              | 4           |
| Statement of Financial Performance           | 5           |
| Statement of Changes in Net Assets           | 6           |
| Cash Flow Statement                          | 7           |
| Statement of Comparison of Budget and Actual | 8 - 10      |
| Summary of Significant Accounting Policies   | 11 - 34     |
| Notes to the Financial Statements            | 35 - 66     |

|         |  |
|---------|--|
| COID    | Compensation for Occupational Injuries and Diseases                |
| CRR     | Capital Replacement Reserve  |
| DBSA    | Development Bank of South Africa                                   |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP    | Generally Recognised Accounting Practice                           |
| GAMAP   | Generally Accepted Municipal Accounting Practice                   |
| HDF     | Housing Development Fund   |
| IAS     | International Accounting Standards                                 |
| IMFO    | Institute of Municipal Finance Officers                            |
| IPSAS   | International Public Sector Accounting Standards                   |
| ME's    | Municipal Entities   |
| MEC     | Member of the Executive Council                                    |
| MFMA    | Municipal Finance Management Act                                   |
| MIG     | Municipal Infrastructure Grant (Previously CMIP)                   |

## **Umzimkhulu Local Municipality**

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

### **Approval of Financial Statements**

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I am responsible for the preparation of these financial statements, which are set out on pages 4 to 66 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, and payments made to Councillors for loss of office, if any, as disclosed in note 26 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**Mr Z S Sikhosana**  
**Municipal Manager**

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

| Figures in Rand                            | Note(s) | 2018               | 2017<br>Restated*  |
|--|---------|--------------------|--------------------|
| <b>Assets</b>                              |         |                    |                    |
| <b>Current Assets</b>                      |         |                    |                    |
| Cash and cash equivalents                  | 2       | 206,384,337        | 175,497,852        |
| Receivables from exchange transactions     | 3       | 2,425,014          | 2,617,506          |
| Receivables from non-exchange transactions | 4       | 3,279,889          | 2,102,222          |
|  |         | <b>212,089,240</b> | <b>180,217,580</b> |
| <b>Non-Current Assets</b>                  |         |                    |                    |
| Investment property                        | 6       | 31,194,596         | 31,224,663         |
| Property, plant and equipment              | 7       | 412,453,925        | 417,600,872        |
| Intangible assets                          | 8       | 1,105,362          | 906,053            |
| Heritage assets                            | 9       | 255,000            | 255,000            |
|  |         | <b>445,008,883</b> | <b>449,986,588</b> |
| <b>Total Assets</b>                        |         | <b>657,098,123</b> | <b>630,204,168</b> |
| <b>Liabilities</b>                         |         |                    |                    |
| <b>Current Liabilities</b>                 |         |                    |                    |
| Payables from exchange transactions        | 10      | 13,348,176         | 15,045,487         |
| Unspent conditional grants and receipts    | 11      | 19,250,259         | 19,142,095         |
| Unspent agents funds                       | 12      | 22,676,710         | 21,777,207         |
| VAT payable                                | 13      | 1,235,307          | 86,515             |
|  |         | <b>56,510,452</b>  | <b>56,051,304</b>  |
| <b>Non-Current Liabilities</b>             |         |                    |                    |
| Employee benefit obligation                | 14      | 2,207,227          | 1,799,498          |
| Provisions                                 | 15      | 3,021,121          | 2,320,670          |
|  |         | <b>5,228,348</b>   | <b>4,120,168</b>   |
| <b>Total Liabilities</b>                   |         | <b>61,738,800</b>  | <b>60,171,472</b>  |
| <b>Net Assets</b>                          |         | <b>595,359,323</b> | <b>570,032,696</b> |
| Housing Development Fund                   | 16      | 21,119,440         | 19,215,795         |
| Accumulated surplus                        | 17      | 574,239,879        | 550,816,901        |
| <b>Total Net Assets</b>                    |         | <b>595,359,319</b> | <b>570,032,696</b> |

\* See Note 46

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

| Figures in Rand  | Note(s) | 2018                 | 2017<br>Restated*    |
|--|---------|----------------------|----------------------|
| <b>Revenue</b>   |         |                      |                      |
| <b>Revenue from exchange transactions</b>              |         |                      |                      |
| Interest received- trading                             |         | 279,630              | 242,586              |
| Interest received - investment                         | 18      | 13,233,980           | 10,801,527           |
| Rental of facilities and equipment                     | 19      | 1,288,801            | 1,184,345            |
| Service charges  | 20      | 2,711,293            | 1,802,644            |
| Other income   | 21      | 1,331,158            | 2,183,995            |
| <b>Total revenue from exchange transactions</b>        |         | <b>18,844,862</b>    | <b>16,215,097</b>    |
| <b>Revenue from non-exchange transactions</b>          |         |                      |                      |
| Property rates   | 22      | 8,767,163            | 6,988,594            |
| <b>Transfer revenue</b>                                |         |                      |                      |
| Government grants & subsidies                          | 23      | 210,841,337          | 199,038,905          |
| Public contributions and donations                     |         | 4,348                | 350,000              |
| Fines, Penalties and Forfeits                          |         | 694,958              | 689,295              |
| Learners and licences                                  |         | 546,938              | 674,169              |
| Motor vehicle registrations and licences               |         | 571,356              | 498,707              |
| <b>Total revenue from non-exchange transactions</b>    |         | <b>221,426,100</b>   | <b>208,239,670</b>   |
| <b>Total revenue</b>                                   | 24      | <b>240,270,962</b>   | <b>224,454,767</b>   |
| <b>Expenditure</b>                                     |         |                      |                      |
| Employee related costs                                 | 25      | (81,304,814)         | (63,677,841)         |
| Remuneration of councillors                            | 26      | (14,527,608)         | (14,757,522)         |
| Debt Impairment  | 27      | (3,558,153)          | (2,360,246)          |
| Depreciation and amortisation                          | 28      | (46,720,499)         | (45,086,713)         |
| Finance costs  | 30      | (1,107,054)          | (375,545)            |
| General Expenses                                       | 31      | (38,343,592)         | (36,247,052)         |
| Lease rentals on operating lease                       |         | (383,765)            | (334,062)            |
| Contracted services                                    | 32      | (30,740,275)         | (27,286,906)         |
| Transfers and Subsidies                                |         | (411,475)            | (180,000)            |
| <b>Total expenditure</b>                               |         | <b>(217,097,235)</b> | <b>(190,305,887)</b> |
| <b>Surplus for the year from continuing operations</b> |         | <b>23,173,727</b>    | <b>34,148,880</b>    |
| Gain on provisions                                     |         | 249,254              | -                    |
| <b>Surplus for the year</b>                            |         | <b>23,422,981</b>    | <b>34,148,880</b>    |

\* See Note 46

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

| Figures in Rand                                       | Housing<br>Development<br>Fund | Accumulated<br>surplus | Total net<br>assets |
|---|--------------------------------|------------------------|---------------------|
| <b>Balance at 01 July 2016</b>                        | <b>17,402,161</b>              | <b>516,668,021</b>     | <b>534,070,182</b>  |
| Changes in net assets                                 |                                |                        |                     |
| Interest on Housing Development Fund                  | 1,813,634                      | -                      | 1,813,634           |
| Net income (losses) recognised directly in net assets | 1,813,634                      | -                      | 1,813,634           |
| Surplus for the year                                  | -                              | 34,148,880             | 34,148,880          |
| Total recognised income and expenses for the year     | 1,813,634                      | 34,148,880             | 35,962,514          |
| Total changes   | 1,813,634                      | 34,148,880             | 35,962,514          |
| Opening balance as previously reported                | 19,215,795                     | 547,609,922            | 566,825,717         |
| Adjustments   |                                |                        |                     |
| Correction of prior period errors                     | -                              | 3,206,976              | 3,206,976           |
| <b>Restated* Balance at 01 July 2017 as restated*</b> | <b>19,215,795</b>              | <b>550,816,898</b>     | <b>570,032,693</b>  |
| Changes in net assets                                 |                                |                        |                     |
| Interest on Housing Development Fund                  | 1,903,645                      | -                      | 1,903,645           |
| Net income (losses) recognised directly in net assets | 1,903,645                      | -                      | 1,903,645           |
| Surplus for the year                                  | -                              | 23,422,981             | 23,422,981          |
| Total recognised income and expenses for the year     | 1,903,645                      | 23,422,981             | 25,326,626          |
| Total changes   | 1,903,645                      | 23,422,981             | 25,326,626          |
| <b>Balance at 30 June 2018</b>                        | <b>21,119,440</b>              | <b>574,239,879</b>     | <b>595,359,319</b>  |
| Note(s)   | 16                             |                        |                     |

\* See Note 46

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

| Figures in Rand   | Note(s) | 2018                       | 2017<br>Restated*          |
|---|---------|----------------------------|----------------------------|
| <b>Cash flows from operating activities</b>                 |         |                            |                            |
| <b>Receipts</b>   |         |                            |                            |
| Receipts from ratepayers and other services                 |         | 15,256,998                 | 17,767,492                 |
| Government Grants and subsidies                             |         | 211,057,664                | 216,181,000                |
| Interest income   |         | 13,233,980                 | 10,801,527                 |
|   |         | <u>239,548,642</u>         | <u>244,750,019</u>         |
| <b>Payments</b>   |         |                            |                            |
| Employee costs  |         | (95,832,422)               | (81,461,801)               |
| Suppliers and other payments                                |         | (71,593,382)               | (60,140,592)               |
|   |         | <u>(167,425,804)</u>       | <u>(141,602,393)</u>       |
| <b>Net cash flows from operating activities</b>             | 34      | <b><u>72,122,838</u></b>   | <b><u>103,147,626</u></b>  |
| <b>Cash flows from investing activities</b>                 |         |                            |                            |
| Purchase of property, plant and equipment                   | 7       | (41,332,111)               | (42,724,996)               |
| Purchase of other intangible assets                         | 8       | (803,745)                  | (1,016,905)                |
| <b>Net cash flows from investing activities</b>             |         | <b><u>(42,135,856)</u></b> | <b><u>(43,741,901)</u></b> |
| <b>Cash flows from financing activities</b>                 |         |                            |                            |
| Housing Development& Electrification Fund Proceeds          |         | 899,503                    | 4,346,963                  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <b>30,886,485</b>          | <b>63,752,688</b>          |
| Cash and cash equivalents at the beginning of the year      |         | 175,497,852                | 111,745,164                |
| <b>Cash and cash equivalents at the end of the year</b>     | 2       | <b><u>206,384,337</u></b>  | <b><u>175,497,852</u></b>  |

\* See Note 46



# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

|  | Original budget      | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget         | Actual outcome       | Unauthorised expenditure | Variance          | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|----------------------|---|--------------------------|--|---|----------------------|----------------------|--------------------------|-------------------|-------------------------------------|--|
| <b>2018</b>  |                      |   |                          |  |   |                      |                      |                          |                   |                                     |  |
| <b>Financial Performance</b>   |                      |   |                          |  |   |                      |                      |                          |                   |                                     |  |
| Property rates   | 7,064,967            | 1,753,970   | 8,818,937                | -  |   | 8,818,937            | 8,767,163            |                          | (51,774)          | 99 %                                | 124 %                                  |
| Service charges  | 1,800,552            | 900,000   | 2,700,552                | -  |   | 2,700,552            | 2,711,293            |                          | 10,741            | 100 %                               | 151 %                                  |
| Investment revenue   | 5,604,572            | 7,050,004   | 12,654,576               | -  |   | 12,654,576           | 13,233,980           |                          | 579,404           | 105 %                               | 236 %                                  |
| Transfers recognised - operational                                   | 165,930,800          | 905,160   | 166,835,960              | -  |   | 166,835,960          | 165,965,000          |                          | (870,960)         | 99 %                                | 100 %                                  |
| Other own revenue  | 3,284,076            | 2,223,082   | 5,507,158                | -  |   | 5,507,158            | 4,966,443            |                          | (540,715)         | 90 %                                | 151 %                                  |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>183,684,967</b>   | <b>12,832,216</b>                                   | <b>196,517,183</b>       | <b>-</b>                                   |   | <b>196,517,183</b>   | <b>195,643,879</b>   |                          | <b>(873,304)</b>  | <b>100 %</b>                        | <b>107 %</b>                           |
| Employee costs   | (69,626,142)         | (10,035,618)  | (79,661,760)             | -  | -   | (79,661,760)         | (81,304,814)         | -                        | (1,643,054)       | 102 %                               | 117 %                                  |
| Remuneration of councillors  | (14,596,188)         | 142,818   | (14,453,370)             | -  | -   | (14,453,370)         | (14,527,608)         | -                        | (74,238)          | 101 %                               | 100 %                                  |
| Debt impairment  | (3,000,000)          | -   | (3,000,000)              |  |   | (3,000,000)          | (3,558,153)          | -                        | (558,153)         | 119 %                               | 119 %                                  |
| Depreciation and asset impairment                                    | (48,384,384)         | 295,281   | (48,089,103)             |  |   | (48,089,103)         | (46,720,499)         | -                        | 1,368,604         | 97 %                                | 97 %                                   |
| Finance charges  | -                    | -   | -                        | -  | -   | -                    | (1,107,054)          | -                        | (1,107,054)       | DIV/0 %                             | DIV/0 %                                |
| Materials and bulk purchases   | (4,100,004)          | 173,760   | (3,926,244)              | -  | -   | (3,926,244)          | (1,909,280)          | -                        | 2,016,964         | 49 %                                | 47 %                                   |
| Transfers and grants   | (6,120,000)          | 5,542,700   | (577,300)                | -  | -   | (577,300)            | (411,471)            | -                        | 165,829           | 71 %                                | 7 %                                    |
| Other expenditure  | (81,712,361)         | (10,239,835)  | (91,952,196)             | -  | -   | (91,952,196)         | (67,558,354)         | -                        | 24,393,842        | 73 %                                | 83 %                                   |
| <b>Total expenditure</b>   | <b>(227,539,079)</b> | <b>(14,120,894)</b>                                 | <b>(241,659,973)</b>     | <b>-</b>                                   | <b>-</b>                                  | <b>(241,659,973)</b> | <b>(217,097,233)</b> | <b>-</b>                 | <b>24,562,740</b> | <b>90 %</b>                         | <b>95 %</b>                            |
| <b>Surplus/(Deficit)</b>   | <b>(43,854,112)</b>  | <b>(1,288,678)</b>                                  | <b>(45,142,790)</b>      | <b>-</b>                                   |   | <b>(45,142,790)</b>  | <b>(21,453,354)</b>  |                          | <b>23,689,436</b> | <b>48 %</b>                         | <b>49 %</b>                            |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

|  | Original budget   | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget      | Actual outcome    | Unauthorised expenditure | Variance            | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|-------------------|---|--------------------------|--|---|-------------------|-------------------|--------------------------|---------------------|-------------------------------------|--|
| Transfers recognised - capital                                     | 59,095,000        | 4,034,200   | 63,129,200               | -  |   | 63,129,200        | 44,876,337        |                          | (18,252,863)        | 71 %                                | 76 %                                   |
| <b>Surplus (Deficit) after capital transfers and contributions</b> | <b>15,240,888</b> | <b>2,745,522</b>                                    | <b>17,986,410</b>        | -  |   | <b>17,986,410</b> | <b>23,422,983</b> |                          | <b>5,436,573</b>    | <b>130 %</b>                        | <b>154 %</b>                           |
| <b>Surplus/(Deficit) for the year</b>                              | <b>15,240,888</b> | <b>2,745,522</b>                                    | <b>17,986,410</b>        | -  |   | <b>17,986,410</b> | <b>23,422,983</b> |                          | <b>5,436,573</b>    | <b>130 %</b>                        | <b>154 %</b>                           |
| <b>Capital expenditure and funds sources</b>                       |                   |   |                          |  |   |                   |                   |                          |                     |                                     |  |
| Total capital expenditure  | 73,012,200        | 13,029,298  | 86,041,498               | -  |   | 86,041,498        | 47,117,158        |                          | (38,924,340)        | 55 %                                | 65 %                                   |
| <b>Sources of capital funds</b>                                    |                   |   |                          |  |   |                   |                   |                          |                     |                                     |  |
| Transfers recognised - capital                                     | 59,095,000        | 4,034,200   | 63,129,200               | -  |   | 63,129,200        | 38,477,582        |                          | (24,651,618)        | 61 %                                | 65 %                                   |
| Internally generated funds   | 13,917,196        | 8,995,102   | 22,912,298               | -  |   | 22,912,298        | 8,639,576         |                          | (14,272,722)        | 38 %                                | 62 %                                   |
| <b>Total sources of capital funds</b>                              | <b>73,012,196</b> | <b>13,029,302</b>                                   | <b>86,041,498</b>        | -  |   | <b>86,041,498</b> | <b>47,117,158</b> |                          | <b>(38,924,340)</b> | <b>55 %</b>                         | <b>65 %</b>                            |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

|   | Original budget    | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget        | Actual outcome     | Unauthorised expenditure | Variance            | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|--------------------|---|--------------------------|--|---|---------------------|--------------------|--------------------------|---------------------|-------------------------------------|--|
| <b>Cash flows</b>   |                    |   |                          |  |   |                     |                    |                          |                     |                                     |  |
| Net cash from (used) operating                              | 67,312,875         | (9,222,382)   | 58,090,493               | -  |   | 58,090,493          | 72,122,838         |                          | 14,032,345          | 124 %                               | 107 %                                  |
| Net cash from (used) investing                              | (73,012,200)       | (5,029,302)   | (78,041,502)             | -  |   | (78,041,502)        | (42,135,856)       |                          | 35,905,646          | 54 %                                | 58 %                                   |
| Net cash from (used) financing                              | -                  | -   | -                        | -  |   | -                   | 899,503            |                          | 899,503             | DIV/0 %                             | DIV/0 %                                |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>(5,699,325)</b> | <b>(14,251,684)</b>                                 | <b>(19,951,009)</b>      | -  |   | <b>(19,951,009)</b> | <b>30,886,485</b>  |                          | <b>50,837,494</b>   | <b>(155)%</b>                       | <b>(542)%</b>                          |
| Cash and cash equivalents at the beginning of the year      | 117,740,467        | 57,757,385  | 175,497,852              | -  |   | 175,497,852         | 175,497,852        |                          | -                   | 100 %                               | 149 %                                  |
| <b>Cash and cash equivalents at year end</b>                | <b>112,041,142</b> | <b>43,505,701</b>                                   | <b>155,546,843</b>       | -  |   | <b>155,546,843</b>  | <b>206,384,337</b> |                          | <b>(50,837,494)</b> | <b>133 %</b>                        | <b>184 %</b>                           |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### 1. Accounting policies

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

#### 1.1.1 Changes in accounting policies, estimates and errors

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Change in an accounting estimate is recognised prospectively in terms of GRAP 3 by including it in surplus or deficit in:

- (a) The period of the change, if the change affects that period only; or
- (b) The period of the change and future periods, if the change affects both

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality changes an accounting policy only in the following instances:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

### 1.2 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.3 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.5 Critical judgements, estimation and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### **Critical judgements, estimation and assumptions (continued)**

#### **1.5.1 Revenue recognition**

Accounting policy 1.18 on Revenue from exchange Transactions and accounting policy 1.19 of Revenue from non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### **1.5.2 Financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 1.12.1 on Financial Assets Classification and on Financial Liabilities Classification describes the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments.

#### **1.5.3 Impairment of financial assets**

Accounting Policy 1.24 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial instruments and used its judgement to select a variety of methods and made assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment value of financial assets recorded during the year is appropriate.

#### **1.5.4 Useful lives of property, plant and equipment, intangible assets and investment property**

As described in Accounting Policies 1.7, 1.8 and 1.9 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the underlying assets. The estimated useful lives of PPE, investment property and intangible assets are assessed annually and this is dependent on the condition of the assets. The residual values are estimated to be zero as the municipality will be utilising these assets of their entire economic life.

#### **1.5.5 Budget information**

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the annual financial statements.

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained between the Statement of comparison of Budget and Actuals and the notes to the annual financial statements.

#### **1.5.6 Impairment of property, plant and equipment and intangible assets**

Accounting Policy 1.8.3 on PPE - Impairment of assets and Accounting Policy 1.9.3 on Intangible assets- Amortisation and impairment. Subsequent measurement describes the conditions under which non- financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing and intangible assets impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [Heavy rains, storms, etc].

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### . Critical judgements, estimation and assumptions (continued)

#### 1.5.7 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

#### 1.5.8 Post Retirement Benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

#### 1.5.9 Principal versus agent relationship

Judgement has been used in assessing and categorising the nature of the respective and independent arrangements between the Municipality and the Human Settlement Department and Eskom as done in conjunction with and partly through the National Department of Energy

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

---

### 1.6 Standards, amendments to standards and interpretations issued

#### 1.6.1 Standards and interpretations approved and effective:

##### **GRAP 109 Accounting by Principals and Agents**

An entity is an agent when in relation to transactions with third parties all three of the following criteria are present:

That the entity concerned does not have the power to determine the significant terms and conditions of the transaction;

That it does not have the ability to use all or substantially all of the resources resulting from the transactions for its own benefit; and

That it is not exposed to variability in the results of the transaction.

An exception will apply where an entity has been granted specific powers in terms of legislation to direct terms and conditions of particular transactions, in such a situation it shall not consider the 'not having the power to determine significant terms and conditions of the transaction' criteria to conclude that it is an agent. In such situations, the entity shall apply its own judgement in determining whether such powers exist and whether they are relevant in assessing an entity as an agent.

The Municipality has an agent-principal relationship with two different parties namely the Human Settlement Department and Eskom, the latter administered in conjunction with and partly through the National Department of Energy.

##### **Housing Development Fund (Municipal Housing Operating Account)**

In respect of Human Settlement Function, the Municipality has been tasked with the responsibility of delivering housing projects for and on behalf the Human Settlement Department done in terms of the Housing Act, Act No 107 of 1997 whereby a Human Settlement Fund was historically advanced to the Municipality for the sole purpose of developing and selling housing schemes. This fund has two components, the capital fund and the operational fund. The capital fund represents the capital sum that came into being on 01 April 1998 (as a result of the extinguishment of the previous National and Provincial Government Loans made available to the Municipality for the purpose of financing housing selling schemes in terms of the then incoming Housing Act) while the operational fund represents a combination of interested earned on the capital fund that has been transferred to the operational fund under the express authority of the Human Settlement Department and interest since earned on the operational fund itself to-date. The two funds are managed through distinct bank accounts. The development and selling of housing schemes, is done through the operational fund; whereby each housing scheme's business plan is specifically approved and signed off by the Human Settlement Department from start to completion. In terms of the standing directive of the Housing Act, Section 14 (4) (d) (iv) the Municipality furnishes on a monthly basis monthly reports regarding the sale of immovable property by the Municipality in terms of this paragraph including the basis for determining the selling prices.

##### **Initial recognition**

The Municipal Housing Operating Account is the interest of the Capital and is recognised as a reserve in municipal books.

##### **Subsequent measure**

The unspent fund on Human Settlement Development Fund is recorded as an unspent in the liabilities.

##### **ESKOM Principal**

With respect to the Eskom principal / agency relationship the Municipality receives a conditional electrification grant from the National Department of Energy, the purpose of which is to address the electrification backlog of permanently occupied residential dwellings entailing the installation and rehabilitation of the electricity bulk infrastructure. The foregoing 'works' on infrastructure are done on behalf of and for the benefit of Eskom. In terms of the existing memorandum of understanding, Eskom approves the design and the construction / rehabilitation of each bulk infrastructure project embarked upon; with a final approval sign-off on project completion prior to the permanent transfer of the project on completion. There were no changes to the foregoing significant terms and conditions of the arrangement during the reporting period.

The foregoing arrangements have been accounted for in terms of the standard on accounting by principals and agents, wherein the Municipality is an agent and two parties referred to above are unrelated and independent principals. Practically, these arrangements have each been accounted for in terms of fund accounting; whereby the funds received are recognised as an effective liability in terms of fund accounting; and upon utilisation of the fund for the intended purposes in the manner described above, the respective fund is reduced by the total approved and compliant expenditure. Accordingly, at any reporting date, each respective fund represents the unexpended portion of the respective designated funds received from the respective principals inclusive of interest received, where expressly stipulated. Each of the funds are duly backed by the matching investment bank accounts at the reporting date. The nature and the identity of conditional capital grant received from the National Department of Energy, has been overridden by the principles of the principal / agent relationship amongst the parties involved and thus accounted for in terms of fund accounting.

There were resources that were duly recognised in the Municipality's financial statements yet held on the principal's behalf. The only risks transferred from the respective principals to the Municipality are 'custody and potential workmanship error' risk on the development and selling of housing schemes as well respective construction and rehabilitation activities vis-à-vis the bulk electricity infrastructure during the construction and rehabilitation phase.

##### **Initial recognition**

The municipality recognises a liability when it receives the funds from the principal, and when paying the service providers the

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### . Standards, amendments to standards and interpretations issued (continued)

liability is reduced.

This standard has been early adopted by the municipality.

#### **1.6.2 Standards and interpretations issued, but not yet effective**

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 April 2016 or later periods:

#### **GRAP108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **1.6.2 Standards and interpretations approved not yet effective**

##### **GRAP 20 Related Party Disclosures**

The objective of this Standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

##### **Scope**

An entity that prepares and presents financial statements under the accrual basis of accounting (in this Standard referred to as the reporting entity) shall apply this Standard in:

- (a) identifying related party relationships and transactions;
- (b) identifying outstanding balances, including commitments, between an entity and its related parties;
- (c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- (d) determining the disclosures to be made about those items.

. This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements (GRAP 6). This Standard also applies to individual financial statements.

. Related party transactions and outstanding balances within an economic entity are disclosed in an entity's financial statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the economic entity.

GRAP 32 Service Concession Arrangements: Grantor

GRAP 34 Separate Financial Statements

GRAP 35 Consolidated Financial Statements

GRAP 36 Investments in Associates and Joint Ventures

GRAP 37 Joint Arrangements

GRAP 38 Disclosure of Interests in Other Entities

GRAP 110 Living and Non-living Resources



# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

---

### 1.7 Investment property

#### 1.7.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

#### 1.7.2 Subsequent measurement

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

|                     |             |
|---------------------|-------------|
| Investment property | 30-50 years |
|---------------------|-------------|

#### 1.7.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.8 Property, plant and equipment

#### 1.8.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

---

### Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or replace part thereof. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

### 1.8.2 Subsequent measurement

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

### 1.8.3 Depreciation and impairment

Property, plant and equipment is depreciated on the straight line basis over their expected useful lives of assets.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item                                | Average useful life |
|-------------------------------------|---------------------|
| Land                                | Indefinite          |
| Buildings                           |                     |
| • Buildings                         | 30-50 years         |
| Infrastructure                      |                     |
| • Dams                              | 30 years            |
| • Pedestrian malls                  | 30 years            |
| • Roads                             | 10-30 years         |
| Community                           |                     |
| • Buildings                         | 30-50 years         |
| • Recreational facilities           | 20-30 years         |
| • Security                          | 5-10 years          |
| Other property, plant and equipment |                     |
| • Other Vehicles                    | 5-15 years          |
| • Office equipment                  | 3-12 years          |
| • Furning and fittings              | 7-12 years          |
| • Specialist Vehicles               | 10-20 years         |
| • Landfill site                     | 15 years            |

The useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

---

### **Property, plant and equipment (continued)**

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

#### **1.8.4 Derecognition**

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### **1.8.5 Work in progress**

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

#### **1.8.6 Land**

Land is not depreciated as it is deemed to have an indefinite useful life.

#### **1.8.7 Infrastructure assets**

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

### **1.9 Intangible assets**

#### **1.9.1 Initial recognition**

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

#### **1.9.2 Subsequent measurement**

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

#### **1.9.3 Amortisation and impairment**

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### . Intangible assets (continued)

| Item                     | Useful life |
|--------------------------|-------------|
| Computer software, other | 3-5 years   |

#### 1.9.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

#### 1.10 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

#### 1.11 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

##### 1.11.1 Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

##### 1.11.2 Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

---

### . Heritage assets (continued)

#### 1.11.3 Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Heritage assets are not depreciated.

#### 1.11.4 Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### 1.11.5 Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### 1.11.6 Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### Financial instruments (continued)

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

---

### Financial instruments (continued)

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### 1.12.1 Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class                                      | Category                                   |
|--|--|
| Cash and cash equivalent                   | Financial asset measured at amortised cost |
| Receivables from exchange transactions     | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class                               | Category                                       |
|-------------------------------------|--|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Other financial liabilities         | Financial liability measured at amortised cost |

### 1.12.2 Initial recognition

The Municipality recognises a financial asset or a financial liability in its statement of financial position when the Municipality becomes a party to the contractual provisions of the instrument.

The Municipality recognises financial assets using trade date accounting.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### . Financial instruments (continued)

#### 1.12.3 Initial measurement of financial assets and financial liabilities

The Municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The Municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the Municipality analyses a concessionary loan into its component parts and accounts for each component separately. The Municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### 1.12.4 Subsequent measurement of financial assets and financial liabilities

The Municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### 1.12.5 Impairment and uncollectibility of financial assets

The Municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

##### **Financial assets measured at amortised cost:**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.



# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### Financial instruments (continued)

#### 1.12.6 Derecognition

##### 1.12.6.1 Financial assets

The Municipality derecognises financial assets using trade date accounting.

The Municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the Municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the Municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the Municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the Municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the Municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the Municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### 1.12.6.2 Financial liabilities

The Municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

---

### **Financial instruments (continued)**

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another Municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **1.12.7 Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the Municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the Municipality does not offset the transferred asset and the associated liability.

#### **1.13 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

#### **1.14 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

#### **1.15 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### 1.16 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

### 1.17 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### **. Leases (continued)**

#### **1.17.1 Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **1.17.2 Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

#### **1.18 Revenue from exchange transactions**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another municipality (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services. Such transactions are accounted for in accordance with the standard on principals and agents

#### **1.18.1 Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts and volume rebates.

#### **1.18.2 Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

---

### **Revenue from exchange transactions (continued)**

#### **1.18.3 Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### **1.18.4 Interest**

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

#### **1.19 Revenue from non-exchange transactions**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### **Revenue from non-exchange transactions (continued)**

#### **1.19.1 Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### **1.19.2 Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### **1.19.3 Taxes**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### **1.19.4 Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **1.19.5 Debt forgiveness and assumption of liabilities**

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### **Revenue from non-exchange transactions (continued)**

#### **1.19.6 Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

#### **1.19.7 Bequests**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

#### **1.19.8 Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### **1.19.9 Services in-kind**

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Services in-kind are not recognised.

### **1.20 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### **1.21 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

Investment costs are recognised as an expense in the period in which they are incurred.

### **1.22 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.23 Employee benefits**

#### **1.23.1 Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employee renders services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### **Employee benefits (continued)**

The expected costs of surplus sharing and bonus payments is recognised as expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### **1.23.2 Retirement benefits**

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical and pension funds on their behalf and thus there are no post-employment benefits.

#### **1.23.3 Long service awards**

Provision for long services awards represents the present value of the estimated future cash outflow to be made by the municipality resulting from employee services provided up to Statement of Financial Position date. The provision comprises of amounts that the Municipality has a present obligation to pay resulting for employees services provided up to Statement of Financial Position date. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities.

The leave may wholly or partially converted into cash and or sick leave on the date on which the employees qualifies therefore or at any stages. On termination of service of an employee with ten (10) or more year's service, for reason of retirement, death, medical incapacity or retrenchment, leave shall be paid out to an employee on a pro rata basis. Any special leave accrued in this manner will become payable upon termination for whatever reason and not form part of vacation leave credit

### **Short-term employee benefits**

#### **1.23.4 Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### **1.24 Impairment of cash generating assets**

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.



# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### **Impairment of cash generating assets (continued)**

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### **1.25 Value added tax**

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

### **1.27 Housing Development Fund**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### **1.28 Use of estimates**

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### 1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.30 Segmental information

The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Where applicable segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

### 1.31 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.32 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.33 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Summary of Significant Accounting Policies

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### . Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

#### 1.34 Payables from exchange transactions

The Municipality recognises payables from exchange transactions where liabilities result in counter performance by respective parties as a result of exchange transactions.

Payables from exchange transactions are initially measured at fair value. Where the outflow is expected to be cash or another financial asset, the payable is classified as financial liability.

The Municipality recognises in payables an amount for accruals where an estimate is made of the amounts due for goods or services that have been received or supplied, but an invoice or formal request for payment has not been received at the reporting date.

#### 1.35 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term liquid investments that are convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are classified as financial instruments (refer to note 2).

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 2. Cash and cash equivalents

Cash and cash equivalents consist of:

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Bank balances       | 158,065            | 666,652            |
| Cash on hand        | 1,296              | 1,621              |
| Short-term deposits | 206,224,976        | 174,829,579        |
|                     | <b>206,384,337</b> | <b>175,497,852</b> |

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913.

#### Primary bank account details

| Account number / description                            | Bank statement balances |                    |                    | Cash book balances |                    |                    |
|---|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   | 30 June 2018            | 30 June 2017       | 30 June 2016       | 30 June 2018       | 30 June 2017       | 30 June 2016       |
| FNB- Cheque Account- 52555730913                        | 1,206,542               | 1,564,962          | 446,386            | 158,063            | 666,652            | 419,953            |
| Clydesdale Housing Project- FNB- 62331947418            | 9,533,872               | 9,562,004          | 9,492,856          | -                  | 9,562,004          | 9,492,856          |
| Ext 5&6 Housing Project-FNB- 62023990907                | 470,363                 | 471,883            | 490,122            | -                  | 471,910            | 490,122            |
| Ibisi Housing Project- FNB- 62331935950                 | 121,054                 | 121,518            | 135,230            | -                  | 121,518            | 135,230            |
| MIG Grant- FNB- 62123938055                             | 15,851,104              | 8,927,355          | 7,859,921          | 15,851,114         | 8,927,355          | 7,859,921          |
| MSIG- FNB- 62127055045                                  | 48,172                  | 47,240             | 46,187             | -                  | 47,240             | 46,187             |
| Neighbourhood Grant- FNB- 62174358525                   | 2,844,681               | 2,719,719          | 6,381,217          | 2,844,681          | 2,719,719          | 6,381,215          |
| Electricity- FNB- 62174363508                           | 3,851,822               | 4,930,985          | 365,474            | 3,851,822          | 4,930,985          | 365,475            |
| Riverside Housing Project Phase 1- FNB- 62023990593     | 504,718                 | 506,192            | 506,422            | -                  | 506,192            | 506,422            |
| Riverside Housing Project Phase 2- FNB- 62331950495     | 2,996,157               | 3,004,939          | 2,992,436          | -                  | 3,004,939          | 2,992,436          |
| Ritvlei/Cly Surv Account- FNB- 62123938104              | 946,116                 | 910,193            | 873,354            | -                  | 910,193            | 873,354            |
| Rural Housing Project- FNB- 62331949422                 | 3,797,507               | 3,809,013          | 3,813,178          | 17,423,699         | 3,809,013          | 3,813,178          |
| 32 Days Acc- FNB- 62132172355                           | 44,413,234              | 39,094,691         | 34,804,024         | 44,195,631         | 39,094,691         | 34,804,011         |
| Nedbank- 7165022759                                     | 20,327,270              | 32,283,616         | 26,896,082         | 20,327,270         | 32,283,616         | 26,896,082         |
| Sports Facility Grant- FNB- 62125140129                 | -                       | -                  | 1,133              | -                  | 1,140              | 1,132              |
| Human Settlement Housing Operating Account- 62396633838 | 20,173,325              | 18,305,602         | 16,528,807         | 21,119,441         | 18,305,602         | 16,528,807         |
| Small Town- FNB- 62396640396                            | 13,201,868              | 17,546,680         | 126,235            | 13,201,868         | 17,546,680         | 126,235            |
| Electrification Pledge- FNB- 62521187684                | -                       | -                  | 10,487             | -                  | 12,750             | 12,452             |
| Investec Investment- 1100501690459                      | 67,409,449              | 32,574,033         | -                  | 67,409,449         | 32,574,033         | -                  |
| <b>Total</b>  | <b>207,697,254</b>      | <b>176,380,625</b> | <b>111,769,551</b> | <b>206,383,038</b> | <b>175,496,232</b> | <b>111,745,068</b> |

According to MSCOA chart version 6.1 item assets segment only allows for 10 bank accounts to be added on the system, however on the bank the accounts are separate, as such some of the Housing accounts have been combined together.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand   | 2018               | 2017             |
|---|--------------------|------------------|
| <b>3. Receivables from exchange transactions</b>  |                    |                  |
| Other receivables   | -                  | 33,203           |
| Provision for other receivables   | -                  | (33,203)         |
| Prepayments   | 1,192,725          | 795,600          |
| Operating lease receivables   | 38,488             | 32,128           |
| Consumer debtors - Refuse   | 715,528            | 1,286,159        |
| Consumer debtors - Other Rentals  | 478,273            | 503,619          |
|   | <b>2,425,014</b>   | <b>2,617,506</b> |
| <b>Reconciliation of provision for impairment of trade and other receivables</b>                |                    |                  |
| Opening balance   | (33,203)           | (37,598)         |
| Amounts written off as uncollectible  | 33,203             | -                |
| Payment received  | -                  | 4,395            |
|   | <b>-</b>           | <b>(33,203)</b>  |
| <b>Refuse</b>   |                    |                  |
| Gross balance   | 3,434,851          | 2,607,549        |
| Less: Allowance for impairment  | (2,719,323)        | (1,321,390)      |
| <b>Net balances</b>   | <b>715,528</b>     | <b>1,286,159</b> |
| <b>Refuse in days</b>   |                    |                  |
| Current (0-30 days)   | 173,789            | 133,438          |
| 31-60 days  | 51,814             | 64,215           |
| 61-90 days  | 44,552             | 56,178           |
| 91-120 days   | 9,010              | 25,028           |
| 121-365 days  | 436,362            | 1,007,300        |
|   | <b>715,527</b>     | <b>1,286,159</b> |
| <b>Other rentals</b>  |                    |                  |
| Balance   | 478,273            | 503,619          |
| <b>4. Receivables from non-exchange transactions</b>  |                    |                  |
| Fines   | 1,656,506          | 1,252,527        |
| Provision for Traffic Fines   | (1,425,216)        | (983,416)        |
| Consumer debtors - Rates  | 3,048,599          | 1,833,111        |
|   | <b>3,279,889</b>   | <b>2,102,222</b> |
| <b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b> |                    |                  |
| Opening balance   | (983,416)          | (441,496)        |
| Provision for impairment  | (441,800)          | (541,920)        |
|   | <b>(1,425,216)</b> | <b>(983,416)</b> |
| <b>Rates</b>  |                    |                  |
| Gross balance   | 4,191,213          | 4,316,068        |
| Less: Allowance for impairment  | (1,142,615)        | (2,482,956)      |
| <b>Net balance</b>  | <b>3,048,598</b>   | <b>1,833,112</b> |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 4. Receivables from non-exchange transactions (continued)

#### Rates in days

|                     |                  |                  |
|---------------------|------------------|------------------|
| Current (0-30 days) | 314,556          | 128,195          |
| 31-60 days          | 47,381           | 54,988           |
| 61-90 days          | 37,632           | 46,326           |
| 91-120 days         | 5,558            | 7,607            |
| 121-365 days        | 2,643,471        | 1,595,996        |
|                     | <b>3,048,598</b> | <b>1,833,112</b> |

### 5. VAT receivable

### 6. Investment property

|                     | 2018                |  |                | 2017                |  |                |
|---------------------|---------------------|--|----------------|---------------------|--|----------------|
|                     | Cost /<br>Valuation | Accumulated depreciation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated depreciation<br>and<br>accumulated<br>impairment | Carrying value |
| Investment property | 31,224,663          | (30,067)   | 31,194,596     | 31,827,992          | (603,329)  | 31,224,663     |

#### Reconciliation of investment property - 30 June 2018

|                     | Opening<br>balance | Depreciation | Total      |
|---------------------|--------------------|--------------|------------|
| Investment property | 31,224,663         | (30,067)     | 31,194,596 |

#### Reconciliation of investment property - June 2017

|                     | Opening<br>balance | Depreciation | Total      |
|---------------------|--------------------|--------------|------------|
| Investment property | 31,254,830         | (30,167)     | 31,224,663 |

### 7.1 Rental Income from Investment Property

|                            |                  |                  |
|----------------------------|------------------|------------------|
| Direct income from rentals | <u>1,288,801</u> | <u>1,184,345</u> |
|----------------------------|------------------|------------------|

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand   | 2018              | 2017              |
|---|-------------------|-------------------|
| <b>6. Investment property (continued)</b>   |                   |                   |
| <b>7.2 Details of property</b>  |                   |                   |
| <b>Land- Shopping Complex</b>   |                   |                   |
| Erven 229, 735 and 736  |                   |                   |
| Duration : 50 years   |                   |                   |
| Termination date : 18 June 2046   |                   |                   |
| The Rhino centre has 10% of the net rental and 2% is payable to the municipality, which is calculated on the turnover.  |                   |                   |
| - Purchase price: 1 July 1996   | 5,300,000         | 5,300,000         |
| <b>Building- Hotel and House</b>  |                   |                   |
| Erven 231 and 232   |                   |                   |
| Duration : 50 years   |                   |                   |
| Termination date : 30 November 2061   |                   |                   |
| Rental income is R148 620 per annum. The rental shall escalate by an amount equivalent to the CPI index every year.   |                   |                   |
| - Purchase price: 1 December 2011   | 904,992           | 904,992           |
| - Accumulated depreciation  | (633,404)         | (603,328)         |
|   | <b>271,588</b>    | <b>301,664</b>    |
| <b>Municipal Vacant Land</b>  |                   |                   |
| Erven 152   |                   |                   |
| - Purchase price: 1 July 1997   | 13,162,000        | 13,162,000        |
| - Additions since purchase or valuation   | 2,461,000         | 2,461,000         |
|   | <b>15,623,000</b> | <b>15,623,000</b> |
| <b>Land- Umzimkhulu Mall</b>  |                   |                   |
| Erven 155   |                   |                   |
| Duration: 50 years  |                   |                   |
| Termination: 31 December 2062   |                   |                   |
| Rental income is R285 952 per annum. The rental shall escalate by an amount equivalent to CPI index every year, but this escalation shall never be less than 4% nor be greater than 8% per annum. |                   |                   |
| - Purchase price: 1 January 2013  | 10,000,000        | 10,000,000        |
| - Land- Shopping Complex  | 5,300,000         | 5,300,000         |
| - Building- Hotel and Housing   | 271,588           | 301,664           |
| - Municipal Vacant Properties   | 15,623,000        | 15,623,000        |
| - Land- Umzimkhulu Mall   | 10,000,000        | 10,000,000        |
| <b>Total Investment property</b>  | <b>31,194,588</b> | <b>31,224,664</b> |

There were no repairs and maintainance on the investement property in this financial year.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

### Notes to the Financial Statements

Figures in Rand

#### 7. Property, plant and equipment

|                           | 2018                |  |                    | 2017                |  |                    |
|---------------------------|---------------------|--|--------------------|---------------------|--|--------------------|
|                           | Cost /<br>Valuation | Accumulated depreciation<br>and<br>accumulated<br>impairment | Carrying value     | Cost /<br>Valuation | Accumulated depreciation<br>and<br>accumulated<br>impairment | Carrying value     |
| Land                      | 10,104,000          | -  | 10,104,000         | 10,104,000          | -  | 10,104,000         |
| Buildings                 | 45,891,775          | (11,876,001)   | 34,015,774         | 45,409,059          | (10,359,150)   | 35,049,909         |
| Infrastructure Assets     | 418,741,130         | (221,486,464)  | 197,254,666        | 388,409,662         | (186,925,327)  | 201,484,335        |
| Community Assets          | 125,894,277         | (20,025,189)   | 105,869,088        | 121,013,880         | (15,825,075)   | 105,188,805        |
| Other Fixed Assets        | 45,672,253          | (22,435,751)   | 23,236,502         | 44,642,238          | (17,185,797)   | 27,456,441         |
| WIP Infrastructure Assets | 11,674,212          | -  | 11,674,212         | 14,951,194          | -  | 14,951,194         |
| WIP Community Assets      | 30,299,683          | -  | 30,299,683         | 23,366,188          | -  | 23,366,188         |
| <b>Total</b>              | <b>688,277,330</b>  | <b>(275,823,405)</b>   | <b>412,453,925</b> | <b>647,896,221</b>  | <b>(230,295,349)</b>   | <b>417,600,872</b> |



# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

### 7. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 30 June 2018

|                           | Opening<br>balance | Additions         | Disposals        | Capitalised  | Depreciation        | Total              |
|---------------------------|--------------------|-------------------|------------------|--------------|---------------------|--------------------|
| Land                      | 10,104,000         | -                 | -                | -            | -                   | 10,104,000         |
| Buildings                 | 35,049,909         | 999,753           | (388,513)        | -            | (1,645,375)         | 34,015,774         |
| Infrastructure Assets     | 201,484,335        | -                 | -                | 30,331,468   | (34,561,137)        | 197,254,666        |
| Community Assets          | 105,188,805        | -                 | -                | 4,880,397    | (4,200,114)         | 105,869,088        |
| Other fixed assets        | 27,456,441         | 1,463,980         | (4,203)          | -            | (5,679,716)         | 23,236,502         |
| WIP Infrastructure Assets | 14,951,194         | 27,054,486        | -                | (30,331,468) | -                   | 11,674,212         |
| WIP Community Assets      | 23,366,188         | 11,813,892        | -                | (4,880,397)  | -                   | 30,299,683         |
|                           | <b>417,600,872</b> | <b>41,332,111</b> | <b>(392,716)</b> | <b>-</b>     | <b>(46,086,342)</b> | <b>412,453,925</b> |

#### Reconcilliation of opening balances

|                       | Opening<br>balance as<br>previously<br>reported | Adjustment<br>correction of<br>prior period<br>error | Re-stated<br>opening<br>balance |
|-----------------------|---|--|---------------------------------|
| Land                  | 10,104,000                                      | -  | 10,104,000                      |
| Buildings             | 33,045,668                                      | 2,004,243  | 35,049,911                      |
| Infrastructure assets | 202,622,943                                     | (1,138,608)  | 201,484,335                     |
| Community Assets      | 104,619,815                                     | 568,990  | 105,188,805                     |
| Other fixed assets    | 27,445,342                                      | 11,099   | 27,456,441                      |
| WIP Infrastructure    | 14,951,194                                      | -  | 14,951,194                      |
| WIP Community assets  | 23,366,188                                      | -  | 23,366,188                      |
|                       | <b>416,155,150</b>                              | <b>1,445,724</b>                                     | <b>417,600,874</b>              |

## Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

### Notes to the Financial Statements

Figures in Rand

#### 7. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - June 2017

|                           | Opening<br>balance | Additions         | Loss on<br>scrapping of<br>asset | Capitalised<br>during the<br>year | Depreciation        | Total              |
|---------------------------|--------------------|-------------------|----------------------------------|-----------------------------------|---------------------|--------------------|
| Land                      | 10,104,000         | -                 | -                                | -                                 | -                   | 10,104,000         |
| Buildings                 | 21,751,230         | -                 | -                                | 14,502,616                        | (1,203,937)         | 35,049,909         |
| Infrastructure Assets     | 208,199,095        | -                 | -                                | 27,415,557                        | (34,130,317)        | 201,484,335        |
| Community Assets          | 99,749,065         | -                 | -                                | 9,534,846                         | (4,095,106)         | 105,188,805        |
| Other fixed assets        | 28,460,323         | 4,625,812         | (359,261)                        | -                                 | (5,270,433)         | 27,456,441         |
| WIP Infrastructure Assets | 11,643,492         | 30,846,855        | -                                | (27,539,153)                      | -                   | 14,951,194         |
| WIP Community Assets      | 26,236,002         | 6,541,436         | -                                | (9,411,250)                       | -                   | 23,366,188         |
| WIP Buildings             | 13,791,723         | 710,893           | -                                | (14,502,616)                      | -                   | -                  |
|                           | <b>419,934,930</b> | <b>42,724,996</b> | <b>(359,261)</b>                 | <b>-</b>                          | <b>(44,699,793)</b> | <b>417,600,872</b> |

##### Reconciliation of Work-in-Progress 2018

|                               | Included<br>within<br>Infrastructure | Included<br>within<br>Community | Total             |
|-------------------------------|--------------------------------------|---------------------------------|-------------------|
| Opening balance               | 14,951,194                           | 23,366,188                      | 38,317,382        |
| Additions/capital expenditure | 27,155,070                           | 11,946,642                      | 39,101,712        |
| Other movements [specify]     | (30,331,468)                         | (4,880,397)                     | (35,211,865)      |
|                               | <b>11,774,796</b>                    | <b>30,432,433</b>               | <b>42,207,229</b> |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

2018

2017

### 7. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2017

|                                | Included<br>within<br>Infrastructure | Included<br>within<br>Community | Included<br>within Other<br>PPE | Total             |
|--------------------------------|--------------------------------------|---------------------------------|---------------------------------|-------------------|
| Opening balance                | 11,643,492                           | 26,236,002                      | 13,791,723                      | 51,671,217        |
| Additions/capital expenditure  | 32,031,978                           | 6,942,651                       | 710,893                         | 39,685,522        |
| Transferred to completed items | (28,724,276)                         | (9,812,465)                     | (14,502,616)                    | (53,039,357)      |
|                                | <b>14,951,194</b>                    | <b>23,366,188</b>               | <b>-</b>                        | <b>38,317,382</b> |

#### Other information

**Included in property, plant and equipment are property that have been identified as taking significantly longer period of time to complete than expected, due to the following:**

|                                   |                   |                   |
|-----------------------------------|-------------------|-------------------|
| New Traffic Department            | -                 | 14,502,616        |
| Wip- Memorial Hall                | 16,750,630        | 16,750,630        |
| Umzimkhulu SMME Facility          | 5,834,681         | 752,548           |
| WIP- Development of landfill site | 2,231,312         | -                 |
| WIP- Ntlangwini access road       | 5,568,949         | -                 |
|                                   | <b>30,385,572</b> | <b>32,005,794</b> |

**New Traffic department:** The Contractor was appointed 07/07/2017 with the plans to complete the project by 14/12/2017. On 1/03/2018 the Contract between the Municipality and the Contractor was terminated due to Contractor failing to comply with his contractual obligations following several attempts by the Municipality and the Engineer to provide the necessary support. He was issued warnings during meetings and written notifications which he did not respond to, as a result the decision to eventually terminate the Contractor was taken, recommended by the Engineers, approved and executed by the Municipality. The advert for the appointment of an alternative contractor was issued on 16/03/2018 and the Contractor no.2 was appointment 14/08/2018, construction will resume 28/08/2018.

**WIP Memorial Hall:** The reasons for delays in WIP Memorial Hall: The construction of the Memorial hall was put on hold due to investigations on allegations that were still pending, however the municipality has not received any report from the public protector regarding this matter, and the municipality can not proceed with the project until its given a go ahead.

**UMZIMKHULU SMME FACILITY:** During the construction of Phase 1, the Environmental specialist advised that according to the conditions of the EIA approval, there are no works permitted to be performed in the wet land area until a Water Use Licence Authorization (WULA) has been approved. The WULA approval takes approximately six – twelve months. The board or committee sits only four times a year and last sitting was in March 2017. All required documentation had been submitted through our consultant and waiting for the next sitting which will take place in June 2017.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

2018

2017

### 7. Property, plant and equipment (continued)

**WIP- Ntlangwini access road:** The project was initially planned for completion within the same financial year 2017/2018. In April 2018 during deep excavations for bridge construction works, an unusual water flow sequence was discovered on site whereby water flows heavily horizontally rather than the normal perpendicular sequence onto the road. The technical team and Management of the Municipality conducted several meetings and site visits to discuss possible solutions to the situation. On 3/05/2018 the Contractor was issued a formal instruction through the project Engineer to suspend the works in terms of clause 5.11 of the General Condition of Contract 2010.

Based on the investigations, the findings were that:

-The fines within the talus have been washed out by the stream flow opening subterranean tunnels within the talus thus resulting to water flowing via underground network of interconnecting channels on the upstream side from where the bridge was being positioned.

Based on the findings, the following two possible solutions were looked at:

1. Re-design of the bridge to extend the span towards the start of the tunnel in order to capture the water where it diverts, the new bridge will have a length of 40m which is double that of the original design. The height also needed to be increased and pilling was also required to support the bridge as it appeared that the extended length will be located on the donga material, and to also eliminate deeper excavations towards depth of the tunnel. This option had budget demands beyond the registered MIG NOR value and also went beyond the maximum allowable 20% VO for the Contractor. This therefore meant that the Municipality would have to advertise for an alternative Contractor to carry the bridge as a standalone project and there were time related constraints to that, hence this was considered as the last option after exhausting other alternatives.

2. The second alternative was to reroute the road alignment and utilize another that would be less demanding, but the challenge with this option was the land issues, the rerouting was going to trespass through Millie fields that belongs to Chief Mancu & his Community whom are not the beneficiaries of the project. Engagements were started with the Chief and his Community and permission to proceed was eventually granted during special site meeting held on 7/08/2018 at Ntlangwini Access Road. In that regard, we will be able to complete the road within the approved project budgets.

The Contractor was instructed to resume his duties from 18/08/2018, the planned duration is 2 months.

**WIP- Development of landfill site:** We received confirmation of funding from two streams being MIG (R29M) and National Department of Environmental Affairs (R17), the Council resolved that we halt our processes to implement and allow DEA to proceed as Phase 1 then we shall go ahead as phase 2 if necessary depending on whether or not they will cover all our project needs. DEA is currently on site as we speak. The Contractor was introduced in July 2018.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 7. Property, plant and equipment (continued)

#### Repairs and Maintenance

Repairs and maintenance incurred to maintain property, plant and equipment is represented as follows:

|   |                   |                   |
|---|-------------------|-------------------|
| Cost of service providers (Contracted services) | 8,264,970         | 5,699,531         |
| Material and Suppliers                          | -                 | 1,513,425         |
| Employment costs                                | 2,621,626         | 1,809,795         |
| Repairs on the PPE                              | 2,302,250         | 2,848,389         |
|   | <b>13,188,846</b> | <b>11,871,140</b> |

The total for this note showing Repairs and Maintenance will not be the same as the amount in the face of the statement of performance since there, the expenditure is classified according to their nature, but since we have our own plan machinery this note allows us to actually show other expenses incurred in repairing and maintaining our assets.

### 8. Intangible assets

|                   | 2018             |   |                | 2017             |   |                |
|-------------------|------------------|---|----------------|------------------|---|----------------|
|                   | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 2,515,170        | (1,409,808)   | 1,105,362      | 1,711,775        | (805,722)   | 906,053        |

#### Reconciliation of intangible assets - 2018

|                   | Opening balance | Additions | Amortisation | Total     |
|-------------------|-----------------|-----------|--------------|-----------|
| Computer software | 906,053         | 803,745   | (604,436)    | 1,105,362 |

#### Reconciliation of intangible assets - 2017

|                   | Opening balance | Additions | Disposals | Amortisation | Total   |
|-------------------|-----------------|-----------|-----------|--------------|---------|
| Computer software | 643,079         | 1,016,905 | (397,329) | (356,602)    | 906,053 |

### 9. Heritage assets

|  | 2018             |                               |                | 2017             |                               |                |
|--|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
|  | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Heritage assets under construction/development | 432,000          | (177,000)                     | 255,000        | 432,000          | (177,000)                     | 255,000        |

#### Reconciliation of heritage assets- June 2018

|  | Opening balance | Total   |
|--|-----------------|---------|
| Heritage assets under construction/development | 255,000         | 255,000 |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 9. Heritage assets (continued)

#### Reconciliation of heritage assets- June 2017

|  | Opening balance | Impairment losses recognised | Total   |
|--|-----------------|------------------------------|---------|
| Heritage assets under construction/development | 432,000         | (177,000)                    | 255,000 |

**Included in heritage assets are assets that have been identified as taking significantly longer period of time to complete than expected, due to the following:**

|  |         |         |
|--|---------|---------|
| Heritage assets under construction/development | 255,000 | 255,000 |
|--|---------|---------|

The reasons for delays in WIP Memorial Hall: The construction of the Memorial hall was put on hold due to investigations on allegations that were still pending, however the municipality has not received any report from the public protector regarding this matter, and the municipality can not proceed with the project until its given a go ahead.

There was no repairs and maintenance expenditure incurred on Heritage assets that took place in the current financial year.

### 10. Payables from exchange transactions

|   |                   |                   |
|---|-------------------|-------------------|
| Payments received in advanced - contract in process | 448,304           | 261,334           |
| Creditors   | 160,885           | 200,600           |
| Accrued leave pay                                   | 3,971,723         | 2,507,162         |
| Creditors accruals                                  | 1,380,004         | 2,922,714         |
| Deposits received                                   | 28,437            | 72,402            |
| Retention   | 7,358,823         | 8,479,653         |
| Provision for WCA                                   | -                 | 601,622           |
|   | <b>13,348,176</b> | <b>15,045,487</b> |

### 11. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

##### Unspent conditional grants/ funds

|                              |                   |                   |
|------------------------------|-------------------|-------------------|
| Sports Grant                 | 286,060           | -                 |
| Small Town Development Grant | 13,312,581        | 19,142,095        |
| MIG Grant                    | 5,651,618         | -                 |
|                              | <b>19,250,259</b> | <b>19,142,095</b> |

### 12. Unspent Agent Funds

The municipality is holding funds on behalf of two principals to the value of R30 331 510 and R21 777 207 (2017 ) as it is involved in a principle-agent arrangement. These amounts are disclosed as current liabilities on the face of statement of financial position and on note 13 as unspent agent funds/ grants.

No funds were transferred back to the principals in the current year.

The details of the funds are as follows:

|                                       |                   |                   |
|---------------------------------------|-------------------|-------------------|
| Human settlement housing capital fund | 17,423,700        | 17,475,577        |
| Electrification Fund                  | 5,253,010         | 4,301,630         |
|                                       | <b>22,676,710</b> | <b>21,777,207</b> |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand                              | 2018              | 2017              |
|--|-------------------|-------------------|
| <b>12. Unspent Agent Funds (continued)</b>   |                   |                   |
| <b>Human Settlement Housing Capital fund</b> |                   |                   |
| Opening balance                              | 17,475,578        | 17,430,244        |
| Transfer in/ out                             | (872,349)         | (826,942)         |
| Current-year interest                        | 820,472           | 872,276           |
|  | <b>17,423,701</b> | <b>17,475,578</b> |
| <b>Electrification Fund</b>                  |                   |                   |
| Opening balance                              | 4,301,630         | -                 |
| Current-year receipts                        | 19,000,000        | 25,000,000        |
| Conditions met                               | (18,048,620)      | (20,698,370)      |
|  | <b>5,253,010</b>  | <b>4,301,630</b>  |
| <b>13. VAT payable</b>                       |                   |                   |
| Tax refunds payables                         | 1,235,306         | 86,515            |
| <b>14. Employee benefit obligations</b>      |                   |                   |
| <b>Long service awards</b>                   |                   |                   |
| Current service cost                         | 1,799,498         | 1,730,875         |
| Interest cost                                | 406,604           | 375,545           |
| Actuarial (gains) losses                     | 81,828            | (131,527)         |
| Expected return on plan assets               | (80,703)          | (175,395)         |
|  | <b>2,207,227</b>  | <b>1,799,498</b>  |

Employees who achieve 10 years of service will be granted 10 days paid leave. Employees who achieve 15 years of service will be granted 20 days paid leave. Employees who achieve 20 years of service will be granted 30 days paid leave. Employees who achieve 20/25/30/35/40 and 45 years of service will be granted 30 days paid leave. The abovementioned leave is only applicable to those employees who achieve the stated years of services after the effective date of these conditions. The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2018. It has been assumed that the staff turnover will be insignificant based on historical data. A discount rate of 9.36% (2017 : 8.95%) was used on internal rate of return.

### Key assumptions used

The financial and demographic assumptions used in the valuation are as follows:

|   |        |        |
|---|--------|--------|
| Discount rates used                                 | 9.36 % | 8.95 % |
| Expected rate of return on reimbursement rights     | 6.43 % | 5.74 % |
| Expected increase in salaries                       | 7.43 % | 6.74 % |
| Proportion of employees opting for early retirement | 1.80 % | 2.07 % |

The mortality rate of an individual is assumed to be 85-90.

The normal retirement age is assumed to be 65 years.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 15. Provisions

#### Reconciliation of provisions - 30 June 2018

|                         | Opening<br>Balance | Additions | Total     |
|-------------------------|--------------------|-----------|-----------|
| Landfill site provision | 2,320,670          | 700,451   | 3,021,121 |

#### Reconciliation of provisions - 30 June 2017

|                         | Opening<br>Balance | Additions | Total     |
|-------------------------|--------------------|-----------|-----------|
| Landfill site provision | 2,424,318          | (103,648) | 2,320,670 |

### Landfill site

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life in December 2018 and has been discounted to reflect its present value.

The discounting rate used is 8.59%.

The Department of Environmental affairs has acknowledged that the Mankofu dumpsite was declared as an unlicensed dumpsite. As such they have made available funding for application of a license for the closure of the site, and they have also funded the construction of the new dumpsite that is currently being constructed.

### 16. Housing operating account

#### Human Settlement Housing Development Fund

|                       |                   |                   |
|-----------------------|-------------------|-------------------|
| Opening balance       | 19,215,795        | 17,402,161        |
| Transfer in/out       | 872,349           | 827,043           |
| Current year interest | 1,031,297         | 986,591           |
|                       | <b>21,119,441</b> | <b>19,215,795</b> |



# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 17. Accumulated surplus

Reconciliation of accumulated surplus- 30 June 2018

|                 | Opening balance | Surplus for the year | Total       |
|-----------------|-----------------|----------------------|-------------|
| Opening balance | 550,816,901     | 23,422,979           | 574,239,880 |

Reconciliation of accumulated surplus- 30 June 2017

|                 | Opening balance | Adjustments during the year | Surplus for the year | Total       |
|-----------------|-----------------|-----------------------------|----------------------|-------------|
| Opening balance | 513,207,905     | 3,210,862                   | 34,398,134           | 550,816,901 |

### 18. Interest received - investment

#### Interest revenue

|      |            |            |
|------|------------|------------|
| Bank | 13,233,980 | 10,801,527 |
|------|------------|------------|

### 19. Investment Property Rentals

#### Premises

|                          |           |           |
|--------------------------|-----------|-----------|
| Facilities and equipment | 1,288,801 | 1,184,345 |
|--------------------------|-----------|-----------|

### 20. Service charges

|                |                  |                  |
|----------------|------------------|------------------|
| Solid waste    | 110,579          | 109,220          |
| Waste disposal | 813,025          | 779,574          |
| Refuse removal | 1,787,689        | 913,850          |
|                | <b>2,711,293</b> | <b>1,802,644</b> |

### 21. Other revenue

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Surplus on Landfill provision   | -                | 103,648          |
| Tender income                   | 197,847          | 417,082          |
| Clearance certificates          | 1,608            | 18,628           |
| Refund income                   | 525,298          | 36,870           |
| Cemetery fees                   | 13,055           | 8,543            |
| Hall fees                       | 88,497           | 50,707           |
| Seta fund                       | 129,872          | 123,269          |
| Business tariffs                | 78,596           | 67,177           |
| PDA applications for land usage | 2,628            | 10,942           |
| Advertising income              | 55,329           | 82,233           |
| Building plans and servitudes   | 90,072           | 111,896          |
| Sale of property                | 26,450           | -                |
| PDA application for MAP         | 8,110            | 5,255            |
| Library fees                    | 98,083           | 105,428          |
| Proceeds on Disposals           | 15,696           | 56,283           |
| Insurance claim                 | -                | 986,034          |
| Over banking                    | 17               | -                |
|                                 | <b>1,331,158</b> | <b>2,183,995</b> |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 22. Property rates

#### Rates raised

|               |                  |                  |
|---------------|------------------|------------------|
| Residential   | 836,017          | 907,474          |
| Commercial    | 3,597,577        | 3,685,520        |
| State         | 7,571,561        | 5,363,277        |
| Farmers       | 40,105           | -                |
| Less: rebates | (3,278,097)      | (2,967,677)      |
|               | <b>8,767,163</b> | <b>6,988,594</b> |

#### Valuations

|                                |                      |                      |
|--------------------------------|----------------------|----------------------|
| Residential                    | 215,837,000          | 215,837,000          |
| Commercial                     | 239,975,000          | 239,975,000          |
| State                          | 669,681,000          | 669,681,000          |
| Municipal                      | 131,032,500          | 131,032,500          |
| Small holdings and agriculture | 582,579,000          | 582,579,000          |
| Industrial                     | 2,687,000            | 2,687,000            |
| Place of worship               | 10,715,000           | 10,715,000           |
| Public service infrastructure  | 9,183,000            | 9,183,000            |
| Communal property              | 51,000               | 51,000               |
| Rural business                 | -                    | -                    |
| Rural residential              | -                    | -                    |
|                                | <b>1,861,740,500</b> | <b>1,861,740,500</b> |

#### Description

|                               | Number of properties | Tariffs |
|-------------------------------|----------------------|---------|
| Agriculture                   | 416                  | 0.0135  |
| Agricultural smallholding     | 211                  | 0.0135  |
| Commercial                    | 61                   | 0.0135  |
| Communal properties           | 1                    | 0.0021  |
| Industrial                    | 2                    | 0.0135  |
| Municipal                     | 1,038                | 0.0088  |
| Public service infrastructure | 74                   | 0.0021  |
| Residential                   | 2,812                | 0.0088  |
| State owned                   | 229                  | 0.0088  |
| Place of worship              | 11                   | 0.0088  |
|                               | <b>4,855</b>         |         |

As per the amended MPRA valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Different rate randage are charged for the various categories of ratepayers. No additional rebates were granted to any categories of ratepayers except for any exemptions and compulsory phasing-in of certain rates as contained in Council's approved Rates Policy.

Old age pensioners were granted 100% subsidy as categorised as indigents and pensioners over 65 years were granted 25% rebate as per Council's approved Rates policy. State properties were granted a 10% rebate and Public Service infrastructures were granted 30% rebate as per Council's approved policy. Rates are levied monthly in 12 equal instalments payable on a monthly basis. Interest is charged at 15.5% on the outstanding balance of service charges, 60% rebate granted for commercial properties as per Council approval.

The new general valuation will be implemented on 01 July 2018.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 23. Government grants and subsidies

#### Operating grants

|                               |                    |                    |
|-------------------------------|--------------------|--------------------|
| Equitable share               | 160,817,000        | 152,393,000        |
| FMG Grant                     | 1,900,000          | 1,825,000          |
| MIG Admin                     | -                  | 1,655,960          |
| Arts and Culture- Library     | 1,325,000          | 1,265,000          |
| Expanded Public Works Program | 1,923,000          | 1,299,000          |
|                               | <b>165,965,000</b> | <b>158,437,960</b> |

#### Capital grants

|                        |                    |                    |
|------------------------|--------------------|--------------------|
| Small town development | 5,829,515          | 857,905            |
| MIG Grant              | 38,443,382         | 39,743,040         |
| Sports Grant           | 603,440            | -                  |
|                        | <b>44,876,337</b>  | <b>40,600,945</b>  |
|                        | <b>210,841,337</b> | <b>199,038,905</b> |

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Expanded Public Works Programme

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 1,923,000   | 1,299,000   |
| Conditions met - transferred to revenue | (1,923,000) | (1,299,000) |
|   | -           | -           |

The purpose of this grant is to promote sound financial management.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None..

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand  | 2018              | 2017              |
|--|-------------------|-------------------|
| <b>23. Government grants and subsidies (continued)</b>   |                   |                   |
| <b>Finance Management Grant</b>  |                   |                   |
| Current-year receipts  | 1,900,000         | 1,825,000         |
| Conditions met - transferred to revenue  | (1,900,000)       | (1,825,000)       |
|  | -                 | -                 |
| The purpose of this grant is to reduce peverty and unemployemnt.   |                   |                   |
| Withheld/delayed grant : None.   |                   |                   |
| Reason(s) for conditions not met : None.   |                   |                   |
| Reason(s) for unspent grant : None.  |                   |                   |
| <b>Arts and Culture Grant</b>  |                   |                   |
| Current-year receipts  | 1,325,000         | 1,265,000         |
| Conditions met - transferred to revenue  | (1,325,000)       | (1,265,000)       |
|  | -                 | -                 |
| The purpose of this grant is to fund the salaries for the Librarians.  |                   |                   |
| Withheld/delayed grant : None.   |                   |                   |
| Reason(s) for conditions not met : None.   |                   |                   |
| Reason(s) for unspent grant : None.  |                   |                   |
| <b>Municipal Infrastructure Grant</b>  |                   |                   |
| Current-year receipts  | 44,095,000        | 41,399,000        |
| Conditions met - transferred to revenue  | (38,443,382)      | (41,399,000)      |
|  | <b>5,651,618</b>  | -                 |
| The purpose for this grant is for infrastructure development.  |                   |                   |
| Withheld/delayed grant : None.   |                   |                   |
| Reason(s) for conditions not met : None.   |                   |                   |
| Reason(s) for unspent grant : There were delays with 3 MIG projects one for Ntlangwini access road was caused by an unusual water flow sequence was discovered on site whereby water flows heavily horizontally rather than the normal perpendicular sequence onto the road. The technical team and Management of the Municipality conducted several meetings and site visits to discuss possible solutions to the situation. On 3/05/2018 the Contractor was issued a formal instruction through the project Engineer to suspend the works in terms of clause 5.11 of the General Condition of Contract 2010. there were delays again in the construction of traffic offices, Contract between the Municipality and the Contractor was terminated due to Contractor failing to comply with his contractual obligations following several attempts by the Municipality and the Engineer to provide the necessary support.. |                   |                   |
| <b>Small Town Development Grant</b>  |                   |                   |
| Balance unspent at beginning of year   | 19,142,095        | 2,000,000         |
| Current-year receipts  | -                 | 18,000,000        |
| Conditions met - transferred to revenue  | (5,829,514)       | (857,905)         |
|  | <b>13,312,581</b> | <b>19,142,095</b> |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The grant was only received in March, and the tender had to be re-advertised because we did not get the intended responses in the 1st advertisement.

### Sports Grant

|   |                |          |
|---|----------------|----------|
| Current-year receipts                   | 889,500        | -        |
| Conditions met - transferred to revenue | (603,440)      | -        |
|   | <b>286,060</b> | <b>-</b> |

Conditions still to be met - remain liabilities (see note 11).

### 24. Revenue

|  |                    |                    |
|--|--------------------|--------------------|
| Service charges                          | 2,711,293          | 1,802,644          |
| Rental of facilities and equipment       | 1,288,801          | 1,184,345          |
| Interest received (trading)              | 279,630            | 242,586            |
| Other revenue                            | 1,331,158          | 2,183,995          |
| Interest received - investment           | 13,233,980         | 10,801,527         |
| Property rates                           | 8,767,163          | 6,988,594          |
| Government grants & subsidies            | 210,841,337        | 199,038,905        |
| Public contributions and donations       | 4,348              | 350,000            |
| Fines, Penalties and Forfeits            | 694,958            | 689,295            |
| Learners and licences                    | 546,938            | 674,169            |
| Motor vehicle registrations and licences | 571,356            | 498,707            |
|  | <b>240,270,962</b> | <b>224,454,767</b> |

### The amount included in revenue arising from exchanges of goods or services are as follows:

|                                    |                   |                   |
|------------------------------------|-------------------|-------------------|
| Service charges                    | 2,711,293         | 1,802,644         |
| Rental of facilities and equipment | 1,288,801         | 1,184,345         |
| Interest received (trading)        | 279,630           | 242,586           |
| Other Revenue                      | 1,331,158         | 2,183,995         |
| Interest received - investment     | 13,233,980        | 10,801,527        |
|                                    | <b>18,844,862</b> | <b>16,215,097</b> |

### The amount included in revenue arising from non-exchange transactions is as follows:

#### Taxation revenue

|                |           |           |
|----------------|-----------|-----------|
| Property rates | 8,767,163 | 6,988,594 |
|----------------|-----------|-----------|

#### Transfer revenue

|  |                    |                    |
|--|--------------------|--------------------|
| Government grants & subsidies            | 210,841,337        | 199,038,905        |
| Public contributions and donations       | 4,348              | 350,000            |
| Fines, Penalties and Forfeits            | 694,958            | 689,295            |
| Learners and licences                    | 546,938            | 674,169            |
| Motor vehicle registrations and licences | 571,356            | 498,707            |
|  | <b>221,426,100</b> | <b>208,239,670</b> |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand  | 2018              | 2017              |
|--|-------------------|-------------------|
| <b>25. Employee related costs</b>                                  |                   |                   |
| Basic  | 53,679,006        | 43,307,374        |
| Bonus  | 3,689,350         | 3,329,807         |
| Medical aid - company contributions                                | 4,252,297         | 2,982,981         |
| UIF  | 390,379           | 307,022           |
| Leave pay provision charge   | 74,894            | 309,150           |
| Leave encashment   | 3,486,127         | 1,516,431         |
| Shift and danger allowance   | 1,024,031         | 638,280           |
| Bargaining council   | 17,482            | 15,349            |
| Pension fund- municipal contributions                              | 5,183,204         | 4,744,129         |
| Travel, motor car, accommodation, subsistence and other allowances | 4,287,564         | 3,179,804         |
| Overtime payments  | 2,293,971         | 1,665,042         |
| Acting allowances  | 200,532           | 17,376            |
| Housing benefits and allowances                                    | 1,565,785         | 1,192,455         |
| Actuarial Losses   | 81,828            | (131,527)         |
| Cellphone expenses   | 716,864           | 113,668           |
| Added responsibility   | 361,500           | 490,500           |
|  | <b>81,304,814</b> | <b>63,677,841</b> |
| <b>Remuneration of Municipal Manager</b>                           |                   |                   |
| Annual Remuneration  | 745,623           | 684,903           |
| Bonus Contract   | 103,655           | 119,518           |
| Backpay  | 14,972            | 21,731            |
| Travel Allowance   | 310,676           | 285,376           |
| Contribution to UIF, Medical and Pension Funds                     | 186,406           | 207,443           |
| Cellphone Allowance  | 24,741            | 23,988            |
| Subsistence Allowance  | 20,553            | 11,594            |
| Leave Encashment   | 47,639            | 129,830           |
|  | <b>1,454,265</b>  | <b>1,484,383</b>  |
| <b>Remuneration of Chief Finance Officer</b>                       |                   |                   |
| Annual Remuneration  | 626,440           | 592,405           |
| Bonus Contract   | 90,570            | 100,414           |
| Backpay  | 12,579            | 18,987            |
| Travel Allowance   | 238,374           | 154,810           |
| Contribution to UIF, Medical and Pension Funds                     | 89,626            | 120,063           |
| Cellphone Allowance  | 24,741            | 23,988            |
| Subsistence Allowance  | 21,993            | 31,179            |
| Housing Allowance  | 89,626            | 120,063           |
| Leave Encashment   | 40,024            | 38,119            |
|  | <b>1,233,973</b>  | <b>1,200,028</b>  |
| <b>Remuneration of Infrastructure and Engineering Manager</b>      |                   |                   |
| Annual Remuneration  | 520,350           | 532,008           |
| Bonus Contract   | 81,336            | 93,783            |
| Backpay  | 11,297            | 17,052            |
| Travel Allowance   | 236,582           | 221,670           |
| Contribution to UIF, Medical and Pension Funds                     | 94,633            | 88,668            |
| Cellphone Allowance  | 24,741            | 23,988            |
| Subsistence Allowance  | 24,507            | 6,974             |
| Housing Allowance  | 47,039            | 44,334            |
| Leave Encashment   | 35,944            | 34,232            |
|  | <b>1,076,429</b>  | <b>1,062,709</b>  |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand   | 2018              | 2017              |
|---|-------------------|-------------------|
| <b>25. Employee related costs (continued)</b>                     |                   |                   |
| <b>Remuneration of Corporate Services Manager</b>                 |                   |                   |
| Annual Remuneration   | 573,918           | 527,182           |
| Bonus Contract  | 79,785            | 91,995            |
| Backpay   | 11,524            | 16,726            |
| Travel Allowance  | 275,435           | 219,659           |
| Contribution to UIF, Medical and Pension Funds                    | 107,177           | 131,795           |
| Cellphone Allowance   | 24,741            | 23,988            |
| Subsistence Allowance   | 35,122            | 25,246            |
| Leave Encashment  | 36,669            | 33,579            |
|   | <b>1,144,371</b>  | <b>1,070,170</b>  |
| <b>Remuneration of Community and Social Services Manager</b>      |                   |                   |
| Annual Remuneration   | 507,165           | 521,863           |
| Bonus Contract  | 79,785            | 91,995            |
| Backpay   | 11,081            | 16,726            |
| Travel Allowance  | 211,319           | 217,443           |
| Contribution to UIF, Medical and Pension Funds                    | 115,710           | 130,465           |
| Cellphone Allowance   | 24,741            | 23,988            |
| Subsistence Allowance   | 22,739            | 13,684            |
| Leave Encashment  | 128,340           | 33,579            |
|   | <b>1,100,880</b>  | <b>1,049,743</b>  |
| <b>Remuneration of Strategic Planning and Development Manager</b> |                   |                   |
| Annual Remuneration   | 507,165           | 591,744           |
| Bonus Contract  | 79,785            | 91,995            |
| Backpay   | 11,081            | 18,966            |
| Travel Allowance  | 211,319           | 246,560           |
| Contribution to UIF, Medical and Pension Funds                    | 115,710           | 147,936           |
| Cellphone Allowance   | 24,710            | 23,988            |
| Subsistence Allowance   | 22,739            | 18,739            |
| Leave Encashment  | 128,340           | 69,289            |
|   | <b>1,100,849</b>  | <b>1,209,217</b>  |
| <b>26. Remuneration of councillors</b>                            |                   |                   |
| Mayor   | 773,804           | 758,012           |
| Deputy mayor  | 619,044           | 606,410           |
| Executive members   | 1,883,295         | 2,599,378         |
| Speaker   | -                 | 505,341           |
| Chief Whip  | 580,354           | 568,510           |
| Councillors' basic allowance                                      | 5,688,543         | 5,160,137         |
| Councillors' travel allowance                                     | 1,629,998         | 1,540,344         |
| Councillors' pension fund contribution                            | 1,094,783         | 1,098,427         |
| Councillors' medical aid contribution                             | 89,860            | 59,805            |
| Councillors' cellphone allowances                                 | 2,167,927         | 1,861,158         |
|   | <b>14,527,608</b> | <b>14,757,522</b> |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 26. Remuneration of councillors (continued)

#### Ward committee expenses

Councillors' basic allowance no longer include the ward committee expenses of R2 734 500 at 30 June 2018 (2017 : R1 788 000), they have been reclassified according to MSCOA into general services.

In-kind-benefits:

The Mayor has a full time secretary and a driver.

The Deputy Mayor has a full time secretary (sharing the same secretary with the Mayor).

The Speaker's office has a full time secretary.

#### Number of employees:

The number of employees was 217 at 30 June 2018 (June 2017 : 191).

### 27. Debt impairment

|                  |                  |                  |
|------------------|------------------|------------------|
| Traffic fines    | 441,800          | 541,950          |
| Rates and refuse | 3,116,353        | 1,818,326        |
|                  | <b>3,558,153</b> | <b>2,360,276</b> |

Contributions to debt impairment relates to increase in bad debt provision made to traffic fines, and rates and refuse.

### 28. Depreciation and amortisation

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 46,086,346        | 44,699,791        |
| Investment property           | 30,067            | 30,166            |
| Intangible assets             | 604,086           | 356,756           |
|                               | <b>46,720,499</b> | <b>45,086,713</b> |

### 29. Impairment of assets

### 30. Finance costs

|                     |           |         |
|---------------------|-----------|---------|
| Other interest paid | 1,107,054 | 375,545 |
|---------------------|-----------|---------|



# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand                             | 2018              | 2017              |
|---|-------------------|-------------------|
| <b>31. General expenses</b>                 |                   |                   |
| External Audit fees                         | 1,549,561         | 1,689,613         |
| Advertising                                 | 1,613,320         | 1,036,407         |
| Bank charges                                | 124,350           | 54,255            |
| Electricity                                 | 3,852,061         | 3,012,543         |
| Entertainment                               | 8,510             | 3,163,812         |
| Equipment hire                              | 474,175           | 1,075,330         |
| Insurance                                   | 1,333,325         | 1,199,206         |
| Conferences and seminars                    | -                 | 179,114           |
| IT expenses                                 | 1,944,882         | 217,872           |
| Fleet                                       | -                 | 1,107,884         |
| Promotions and sponsorships                 | -                 | 456,219           |
| Skills development fund                     | 779,146           | 636,815           |
| Motor vehicle expenses                      | 204,754           | 1,545,103         |
| Materials and supplies                      | 1,220,779         | 1,426,079         |
| Fuel and oil                                | 1,945,344         | 1,933,547         |
| Postage and courier                         | 8,726             | -                 |
| Printing and stationery                     | 1,886,050         | 2,821,125         |
| Subscriptions and membership fees           | 844,831           | 760,849           |
| Telephone and fax                           | 2,548,303         | 2,656,239         |
| Transport                                   | 1,010,570         | 928,634           |
| Training                                    | -                 | 275,000           |
| Subsistence and travelling                  | 6,367,823         | 5,594,251         |
| Water                                       | 156,098           | 89,214            |
| Uniforms                                    | 899,098           | 419,001           |
| Street cleaning services                    | 811,956           | -                 |
| Other operating and administrative expenses | 295,008           | 499,126           |
| Workman's compensation                      | 25,516            | 601,622           |
| Assets less than threshold                  | 113,914           | 240,568           |
| Ward committee stipend                      | 2,734,500         | 1,788,000         |
| Servitudes and land survey                  | 3,256,900         | -                 |
| Loss on scrapping of assets                 | 392,626           | 756,590           |
| Achievements and Awards                     | 322,600           | -                 |
| Workshops and Events                        | 490,422           | -                 |
| Travel Agency and Visa                      | 79,325            | -                 |
| Learnerships and Internships                | 178,000           | -                 |
| Bursaries (Employees)                       | 845,635           | -                 |
| Archives                                    | 25,484            | 83,034            |
|   | <b>38,343,592</b> | <b>36,247,052</b> |

## 32. Contracted services

|                           |                   |                   |
|---------------------------|-------------------|-------------------|
| Other contracted services | 5,204,566         | 4,452,365         |
| Consultants fees          | 3,988,536         | 7,979,460         |
| Security services         | 8,040,018         | 4,793,736         |
| Catering services         | 2,916,505         | -                 |
| Repairs and maintenance   | 10,590,650        | 10,061,345        |
|                           | <b>30,740,275</b> | <b>27,286,906</b> |

## 33. Operating surplus

Operating surplus for the year is stated after accounting for the following:

### Operating lease charges

|                       |         |         |
|-----------------------|---------|---------|
| Equipment             |         |         |
| • Contractual amounts | 383,765 | 334,062 |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand   | 2018              | 2017               |
|---|-------------------|--------------------|
| <b>33. Operating surplus (continued)</b>  |                   |                    |
| Amortisation on intangible assets   | 604,086           | 356,756            |
| Depreciation on property, plant and equipment   | 46,086,346        | 44,699,791         |
| Depreciation on investment property   | 30,067            | 30,166             |
| Employee costs  | 95,832,422        | 78,435,363         |
| <b>34. Cash generated from operations</b>   |                   |                    |
| Surplus   | 23,422,981        | 34,148,880         |
| <b>Adjustments for:</b>   |                   |                    |
| Depreciation and amortisation   | 46,720,499        | 45,086,713         |
| Debt impairment   | 3,558,153         | 2,360,246          |
| Movements in retirement benefit assets and liabilities  | 407,729           | 68,623             |
| Movements in provisions   | 700,451           | (103,648)          |
| Other non-cash items  | (1,012,189)       | -                  |
| Prior period errors   | -                 | (202,879)          |
| Gain on provisions  | (249,254)         | -                  |
| <b>Changes in working capital:</b>  |                   |                    |
| Receivables from exchange transactions  | 192,492           | 45,525             |
| Receivables from non-exchange transactions  | (1,177,667)       | 668,128            |
| Payables from exchange transactions   | (1,697,314)       | 1,376,837          |
| VAT   | 1,148,793         | 2,557,106          |
| Unspent conditional grants and receipts   | 108,164           | 17,142,095         |
|   | <b>72,122,838</b> | <b>103,147,626</b> |
| <b>35. Contingent liabilities</b>   |                   |                    |
| <b>Legal claims</b>   |                   |                    |
| Various claims submitted to the municipality are in the process of being resolved.  |                   |                    |
| Should the respective claimants be successful with their claims, the estimated Municipal liability on such claims, is disclosed below'. |                   |                    |
| Legal disputes relate to:   |                   |                    |
| Invasion of municipal land and illegal structures   | 75,000            | 115,000            |
| Municipal investigations and employees disputes   | 155,000           | 45,000             |
| Default judgement   | 20,000            | 36,000             |
| Breach of contract  | 3,000             | 3,000              |
| Outstanding settlements   | 45,000            | 65,000             |
| Opposing action for damages   | 50,000            | 40,000             |
|   | <b>348,000</b>    | <b>304,000</b>     |

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 36. Commitments

#### 36.1 Authorised capital expenditure

##### Authorised and contracted

|                         |                   |                   |
|-------------------------|-------------------|-------------------|
| • Buildings             | 8,568,849         | 8,568,849         |
| • Community assets      | 24,742,527        | 2,229,181         |
| • Infrastructure assets | 33,273,508        | 13,069,726        |
|                         | <b>66,584,884</b> | <b>23,867,756</b> |

##### Total capital commitments

|                    |            |            |
|--------------------|------------|------------|
| Already contracted | 66,584,884 | 23,867,756 |
|--------------------|------------|------------|

The amounts of commitments include VAT

#### 36.2 Operating leases - as lessee (expense)

At the reporting date the Municipality has outstanding commitments under operating leases which fall due as follows:

##### Minimum lease payments due

|                                     |                |                |
|-------------------------------------|----------------|----------------|
| - within one year                   | 275,617        | 300,673        |
| - in second to fifth year inclusive | -              | 275,617        |
|                                     | <b>275,617</b> | <b>576,290</b> |

8 Photocopy Machines (Nashua): The municipality then entered into new lease agreement of 8 machines that started on 1st of June 2016, and the monthly rental is payable at the end of each month over the period of 36 months.

#### 36.3 Operating leases - as lessor (income)

##### Minimum lease payments due

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| - within one year                   | 1,427,080         | 1,539,973         |
| - in second to fifth year inclusive | 3,046,091         | 3,278,876         |
| - later than five years             | 19,172,115        | 19,659,984        |
|                                     | <b>23,645,286</b> | <b>24,478,833</b> |

The municipality leased vacant land to a property developers whom has developed uMzimkhulu Mall, Rhino Centre and Umzimkhulu Hotel. The lease agreement has a term of 50 years. The rental shall escalate by an amount equivalent to the CPI index, rounded of to the nearest rand, which the escalation will be effective on the commencement date every year. The Rhino centre has 10% of the nett rental plus 2% payable to the municipality, which is calculated on the turnover of each site. Rentals will be recognised when the lessee is invoiced and will not be smooth over the period of the lease.

Umzimkhulu Mall and Hotel commitments have been calculated and will not perform the smoothing on a straight-line over the period of the lease.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 37. Risk management

#### 37.1 Financial risk management

The Municipality has exposure to the following risks from its use of financial instruments:

Liquidity Risk  
Interest Rate Risk  
Credit Risk

This note presents information about the Municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these financial statements.

The Council and the Municipal Manager have overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Municipality's activities.

The Municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations

The Municipal Manager is of the opinion that the values reflected in the financial statements are a true reflection of fair values of both the financial assets and liabilities.

The fair value of consumer debtors is estimated to be the actual receipts expected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

#### Financial Assets

|  |                    |                    |
|--|--------------------|--------------------|
| Petty cash                                 | 1,296              | 1,621              |
| Bank balances                              | 158,064            | 666,652            |
| Short-term deposits                        | 206,224,976        | 174,829,579        |
| Receivables from exchange transactions     | 2,425,014          | 2,617,506          |
| Receivables from non-exchange transactions | 3,279,889          | 2,102,222          |
|  | <b>212,089,239</b> | <b>180,217,580</b> |

#### Financial Liabilities

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| Payables from exchange transactions | 13,348,176        | 14,796,233        |
| Unspent conditional grants          | 19,250,259        | 19,142,095        |
| Unspent agent funds                 | 22,676,710        | 21,777,207        |
|                                     | <b>55,275,145</b> | <b>55,715,535</b> |

#### 37.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

|                                     |            |            |
|-------------------------------------|------------|------------|
| Payables from exchange transactions | 13,348,176 | 14,796,233 |
|-------------------------------------|------------|------------|

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 37. Risk management (continued)

#### 37.3 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

#### Balances exposed to the interest rate risk:

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Bank balances       | 158,064            | 666,652            |
| Short-term deposits | 206,224,976        | 174,829,579        |
|                     | <b>206,383,040</b> | <b>175,496,231</b> |

#### 37.4 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the Municipality, thereby causing financial loss to the Municipality. It is the Municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the Municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument                      | 2018             | 2017             |
|---|------------------|------------------|
| Receivable from exchange transactions     | 2,425,014        | 2,617,506        |
| Receivable from non-exchange transactions | 3,279,889        | 2,102,222        |
|   | <b>5,704,903</b> | <b>4,719,728</b> |

### 38. Fruitless and wasteful expenditure

|                                    |       |   |
|------------------------------------|-------|---|
| Fruitless and wasteful expenditure | 7,767 | - |
|------------------------------------|-------|---|

This fruitless expenditure is the interest from Auditor General invoice that was received in our registry by never reached the finance department, it was only when AG was enquiring about the payment months later that Finance learnt about this invoice, but it could not be recovered, and Auditor General had to reprint the invoice, and charged us interest.

### 39. Irregular expenditure

|  |                   |                   |
|--|-------------------|-------------------|
| Opening balance                          | 10,929,959        | -                 |
| Add: Irregular expenditure- current year | 2,732,298         | 10,929,959        |
| <b>Closing balance</b>                   | <b>13,662,257</b> | <b>10,929,959</b> |

The irregular of R123 200: the municipality was using a standard price for catering, and the selection of service providers was randomly selected by the financial system out of all the caterers in the municipal data base, and the system was free of any manipulation, however according to the SCM regulations the municipality should have sourced out 3 quotations.

The irregular expenditure of R2 609 098 for awards relating to local production and content that did not comply with SCM legislation: a) the invitation did not specify the required minimum threshold for local production.

b) The winning supplier did not provide the municipality with declaration on local production and the suppliers did not declare the local content.

The irregular of R11 053 159 (Current being R123 200 and Opening balance of R10 929 959) has been investigated by the council committee, and it was written-off by the council, and was also reported to Treasury and its now pending letter of approval for Condonation.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 40. Unauthorised expenditure

There was no unauthorised expenditure in the current financial year, and there was nothing in the prior year as well.

### 41. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

|                                 |           |           |
|---------------------------------|-----------|-----------|
| Current year subscription / fee | 826,457   | 748,974   |
| Amount paid - current year      | (826,457) | (748,974) |
|                                 | -         | -         |

#### Audit fees

|                                 |             |             |
|---------------------------------|-------------|-------------|
| Current year subscription / fee | 1,557,328   | 1,689,613   |
| Amount paid - current year      | (1,557,328) | (1,689,613) |
|                                 | -           | -           |

#### PAYE and UIF

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 13,658,447   | 10,913,495   |
| Amount paid - current year      | (13,658,447) | (10,913,495) |
|                                 | -            | -            |

#### VAT

|             |           |        |
|-------------|-----------|--------|
| VAT payable | 1,235,308 | 86,515 |
|-------------|-----------|--------|

All VAT returns have been submitted by the due date throughout the year.

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 42. Related parties

#### Related party balances

##### Councillors- in arrears more than 90 days

|            |   |       |
|------------|---|-------|
| Cllr Mbiko | - | 5,468 |
|------------|---|-------|

##### Section 57 employees

|              |           |           |
|--------------|-----------|-----------|
| Remuneration | 7,110,767 | 7,079,250 |
|--------------|-----------|-----------|

##### Councillors

|              |            |            |
|--------------|------------|------------|
| Remuneration | 14,527,608 | 16,545,522 |
|--------------|------------|------------|

##### Councillors lease rentals

|                  |       |       |
|------------------|-------|-------|
| Cllr MB Mpabanga | 2,050 | 4,730 |
|------------------|-------|-------|

##### Employees lease rentals

|              |        |        |
|--------------|--------|--------|
| N. Tyekela   | 14,938 | 14,040 |
| K. Dweba     | 14,938 | 14,040 |
| Mr Maphumulo | 2,512  | 1,800  |
| Mr Sosibo    | 2,512  | 1,800  |
| Mr Sikhosana | 2,512  | 1,800  |
| Mr Mncwabe   | 2,512  | 1,800  |

#### Key management information

#### Remuneration of management

### 43. Awards to close family members of persons in the service of the state

| Supplier name      | Director's name | person in the service of state | Position of Employee                       | awarded amount   |
|--------------------|-----------------|--------------------------------|--|------------------|
| Tower City Trading | Andile Mbalo    | Kholeka Mbalo                  | Community and Social Services Manager      | 3,606,623        |
| Royal Haskoning    | Salani Sithole  | Wilson Tryphosa Sithole        | Assistant Director at City of Johannesburg | 564,300          |
|                    |                 |                                |  | <b>4,170,923</b> |

### 44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

The municipality procured security services and the process followed in procuring these services deviated from the provisions of paragraph 12(1)(d)(i) as stated above amounting to R13 946 155. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 45. Events after the reporting date

The Heritage asset (Memorial hall) is currently undergoing major renovations that could have a significant impact on its value in future.

No other material category of non-adjusting events took place after the reporting date.

### 46. Prior period errors

Community assets worth R899 975.55 were understated and community assets accumulated depreciation understated by R330 986.

The municipality in 2012 completed the Pound and mistakenly expensed all the costs incurred during major change in accounting policy, but it was discovered in the current year that some of the costs incurred were for these assets, and this has now been corrected below

Buildings were understated by R2 311 968.29, and accumulated depreciation on buildings was also understated by R307 726.07

The municipality in 2016/2017 mistakenly raised accruals on assets and it was discovered in the current financial year that some of the accruals were calculated incorrectly. The error has been corrected below

Infrastructure assets were overstated by R1 354 361.67, and accumulated depreciation overstated by R215 754.04

Fire truck was donated to the municipality in 2012 and it was mistakenly not added on the municipality's records.

The municipal vehicle was involved in an accident and was written off by the insurance in August 2016, the municipality mistakenly did not write off the asset from the accounting records. The error has been corrected.

Other fixed assets were understated by R159 640.44, and the Accumulated depreciation and depreciation for other fixed assets was understated by R148 541.39

Accruals were overstated by R2 035 183

Vat payable was understated by R24 673.39

Depreciation was understated by R103 603

As a result of the above prior errors the Accumulated surplus has increased by an amount of R3 456 230

In the previous years some of the expenses were incorrectly classified by function rather than by nature, and the expenditure has now been correctly classified according to their nature after the implementation of MSCOA that is compliant with GRAP.

The impact of the foregoing errors is as follows:

#### Statement of financial position

|  |   |             |
|--|---|-------------|
| Cost Community assets                        | - | 899,976     |
| Cost buildings                               | - | 2,311,968   |
| Cost Other fixed assets                      | - | 159,640     |
| Cost infrastructure assets                   | - | (1,354,362) |
| Accumulated depreciation: Infrastructure     | - | 227,504     |
| Accumulated depreciation: Community assets   | - | (317,016)   |
| Accumulated depreciation: Buildings          | - | (307,726)   |
| Accumulated depreciation: Other fixed assets | - | (148,541)   |
| Accruals                                     | - | 2,041,562   |
| VAT payable                                  | - | (24,673)    |
| Accumulated surplus                          | - | 3,456,230   |



# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

### 46. Prior period errors (continued)

#### Statement of Financial Performance

|                             |   |              |
|-----------------------------|---|--------------|
| Service charges             | - | 888,794      |
| Other income                | - | (888,794)    |
| Employee related costs      | - | (1,238,438)  |
| Remuneration of councillors | - | (1,788,000)  |
| Depreciation expense        | - | 103,603      |
| Loss on scrapping asset     | - | 756,590      |
| General expenses            | - | (14,271,639) |
| Contracted services         | - | 27,286,906   |
| Repairs and maintenance     | - | (10,061,345) |
| Transfers and subsidies     | - | 180,000      |

#### Statement of Financial Performance

|                               | Previously Reported | Restated          |
|-------------------------------|---------------------|-------------------|
| Loss on scrapping asset       | -                   | 756,590           |
| Depreciation and Amortisation | 45,190,315          | 45,086,712        |
|                               | <b>45,190,315</b>   | <b>45,843,302</b> |

#### Statement of Financial Position

|                               | Previously Reported | Restated           |
|-------------------------------|---------------------|--------------------|
| Property, Plant and equipment | 416,155,150         | 417,600,873        |
| Creditors accruals            | 4,708,643           | 2,922,714          |
|                               | <b>420,863,793</b>  | <b>420,523,587</b> |

### 47. Budget differences

#### Material differences between budget and actual amounts

#### Budget vs Actual Variance Explanations for 2017/2018

The budget is approved on an accrual basis nature of classification. The approved budget covers the period of 01 July 2017 to 30 June 2018

Material variances on final budget compared to actuals.

#### Revenue

Property Rates- Property rates 1% variance is due to new indigent applicants during the financial year 2017-2018 that end up as the revenue forgone that decrease the actual budget.

Service charges- Budget was almost the same as actuals.

Investment Revenue- There was new investment made in April 2018 of R 20 Million that was not anticipated to be invested.

Transfers Recognised Operational- Grants received by the municipality, were as per Division Revenue of Bill for 2017-2018 financial and all grants were received as per the schedule.

Other Own Revenue- Own revenue is due to services that depend on the usage by consumers such as hall rentals, cemetery usage, dumping site usage etc

#### General Expenditure

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

---

Figures in Rand

---

### 47. Budget differences (continued)

Employee Related Cost- This is due to non-structured overtime which was budget less and due to unforeseen circumstances the municipal has to pay more. The scope of work for certain employees was added by that the municipality and the municipality had to pay for added responsibility which was not anticipated in the budget. The budget for personnel and labour (casuals) was budgeted under general expenses in terms of MSCOA, but when analysing GRAP 25 the expenditure is for employee related costs.

Remuneration of Councillors- The municipality has a council resolution which allow the municipality to payback for cell phone allowances this effect took place after the adjustment budget.

Debt Impairment - The calculation for debt impairment toward the end of the financial year has resulted that the municipality under budget and the municipality did not adjust for impairment during the adjustment budget.

Depreciation and Assets Impairment - The saving on the depreciation is due to reversal of traffic department depreciation which was incorrectly classified as computer equipment.

Finance Charges - an amount of R1.1 million was not budget for, relating to the provision for landfill site and provision for long service awards.

Material and bulk purchases- the under expenditure was caused by the tools that we could not procure for waste management, we also could no longer purchase the inventory since our system failed us.

Transfers and grants- the under expenditure was caused by the reclassification of actual expenditure for the district marathon and the mayoral cup according to MSCOA

### OTHER EXPENDITURE

Repairs and Maintenance – Bridges were planned to be repaired during the 2017-2018, but due to unforeseen circumstances there was non-responsive of service providers leading to re-advert.

Other expenditure such as uniform was a re-advert due to service providers did not meet minimum requirement (Uniform)

The Municipality is currently waiting on Department of Human Settlements to get a mandate in terms of initiating the Social Facilitation Strategy

The municipality is waiting for DoHS to approve spending for approved projects and for DRDLR to issue the municipality with a consent for land or DRA.

### Capital Expenditure

Transfer recognised – Capital

Small Town Rehabilitation

- There were significant delays in the finalisation of WULA application. Whilst the provisional approval was in place in March 2018 already the official approval only came through on 5th July 2018. This affected the wetland offset area which the team could not move into until the official approval. Added to this the Department of Economic Development and Environment Issued a contravention warning following evidence of tamper on the offset site

Municipal Infrastructure grant

# Umzimkhulu Local Municipality

(Registration number KZN435)

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

---

Figures in Rand

---

### 47. Budget differences (continued)

Three project has an effect in the low expenditure which is Ntlangwini Access Road, Construction of Traffic Offices and Fencing of new cemetery site.

Ntlangwini Access Road – In April 2018 during deep excavations for bridge construction works, an unusual water flow sequence was discovered on site whereby water flows heavily horizontally rather than the normal perpendicular sequence onto the road.

Construction of Traffic Offices - The contract between the municipalities and the contractor was terminated due to contractor failing to comply with contractual obligation following severally attempts by the municipality and the engineer to provide the necessary support.

Fencing of new cemetery site – All internally processes were performed in time but due to delays associated with issuing of EIA authorisation by DEDTEA we were restricted to start construction until permission was granted.

### Integrated National Electrification Programme

Delamuzy and pholanyoni project has progressed well despite delays experienced due to rain, waterlogged and hard rock areas in some parts of the village. The major delay that is caused a delay of six weeks is the shortage of supply of long lead material. The topography of construction varies between highly mountainous, with stone boulders (hard rock) and water-logged areas which has made construction processes to take longer. The budget remains unspent on Electrification programme due to GRAP 109.

### Internal Generated Fund

The municipality planned to procure plant machines (3 Tipper trucks), during the 2017-2018, but due to unforeseen circumstances the Procurement of the plant was unsuccessful due to non-responsive of service providers leading to re-advert. Other assets such as park homes were re-advertised due to non compliance of service providers.